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**FINAL RECOMMENDATIONS FROM THE
MILITARY COMPENSATION AND RETIRE-
MENT MODERNIZATION COMMISSION**

HEARING
BEFORE THE
SUBCOMMITTEE ON MILITARY PERSONNEL
OF THE
COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTEENTH CONGRESS
FIRST SESSION

HEARING HELD
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FINAL RECOMMENDATIONS FROM THE MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON MILITARY PERSONNEL,
Washington, DC, Wednesday, February 11, 2015.

The subcommittee met, pursuant to call, at 12:58 p.m., in room 2212, Rayburn House Office Building, Hon. Joseph J. Heck (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. JOSEPH J. HECK, A REPRESENTATIVE FROM NEVADA, CHAIRMAN, SUBCOMMITTEE ON MILITARY PERSONNEL

Dr. HECK. Go ahead and call the Military Personnel Subcommittee of the House Armed Services Committee meeting to order. I want to welcome everyone to the first hearing of the Military Personnel Subcommittee on the 15 recommendations to modernize the military compensation and retirement system suggested by the Military Compensation and Retirement Modernization Commission.

We appreciate the Commission's diligent and comprehensive review of the military pay and benefits system, and believe their thoughtful recommendations deserve our attention and careful study. We want to ensure everyone that the Military Personnel Subcommittee will take every opportunity to thoroughly review and discuss them in the coming months.

We are fully committed to improving the welfare and quality of life for both current members of our armed services and our veterans, while ensuring we keep our Nation safe and secure. Our purpose today following last week's full committee hearing is to begin the subcommittee's effort to understand the assumption, rationale, and details behind the Commission's recommendations.

A key consideration for our work is to continue viability of the All-Volunteer Force, which has been well sustained by our current compensation system since its inception. Most importantly, we must not break faith with our service members and undermine our efforts to recruit and retain the best and brightest in our Armed Forces.

Before I introduce our panel, let me offer Congresswoman Davis an opportunity to make her opening remarks.

[The prepared statement of Dr. Heck can be found in the Appendix on page 35.]

STATEMENT OF HON. SUSAN A. DAVIS, A REPRESENTATIVE FROM CALIFORNIA, RANKING MEMBER, SUBCOMMITTEE ON MILITARY PERSONNEL

Mrs. DAVIS. Thank you, Mr. Chairman.

I also want to welcome back the commissioners. You have all been very, very busy and we appreciate the dedication of your time and effort.

I believe this hearing at the subcommittee level provides our committee members the opportunity to have a better dialogue with all of you, with the commissioners, to better understand the assumptions and the details behind the recommendations.

As we continue this dialogue over the next several months, we will have a hard look at 15 recommendations. And we are interested in being sure that any action that the Congress takes will preserve the All-Volunteer Force as an underlying principle. And we know you understand that as well.

Some of the recommendations may take longer to fully understand before we can act. And we know it would have been very difficult actually to have sustained our All-Volunteer Force over the past 13 years of war without the current compensation system that we have today.

But we are entering a new reality. Fiscal pressures with the new generation of citizens entering the military, and it is time to look at this and to look at it responsibly.

The commissioners and their staffs have certainly, as I said, put in serious effort into this. And we, Mr. Chairman, as I know you believe, must do the same. Thank you.

Dr. HECK. Thank you, Mrs. Davis.

Before I introduce the panel let me just lay down some groundwork because we heard that votes will be somewhere between 1:50 and 2:05. We know that you have a hard stop at 2:45 to get across campus. So I would ask to please keep opening statements short.

To those of us at the panel, keep questions short and succinct, and give enough time for the commissioner to answer it. And we will try to muscle through as fast as we can. But we don't want to shortchange anybody's opportunity to give their opinions.

In addition, today we are kind of now at I think recommendation 14½. So recommendation 15 of the Commission on a military dependent education category for disaggregating data we just added as an amendment to the Elementary and Secondary Education Act reauthorization, which is going on right now in the Education and Workforce Committee. So, recommendation 15 is already on its way to being adopted.

We are again joined by an outstanding panel of commissioners. Again please try to keep your statements to 5 minutes or less. Your written comments will be made part of the record.

I want to welcome the Honorable Alphonso Maldon, Chairman of the Commission; the Honorable Stephen Buyer; the Honorable Christopher Carney; Mr. Michael Higgins, who we all know well; General Peter Chiarelli; and Admiral Giambastiani.

Chairman.

**STATEMENT OF HON. ALPHONSO MALDON, JR., CHAIRMAN,
MILITARY COMPENSATION AND RETIREMENT MODERNIZA-
TION COMMISSION; ACCCOMPANIED BY COMMISSIONERS
HON. STEPHEN E. BUYER, MICHAEL R. HIGGINS, GEN PETER
W. CHIARELLI, USA (RET.), ADM EDMUND P. GIAMBASTIANI,
JR., USN (RET.), AND HON. CHRISTOPHER P. CARNEY**

Mr. MALDON. Thank you, Chairman Heck, Ranking Member Davis, distinguished members of the subcommittee. My fellow commissioners and I are honored to be here with you today. We thank you for the opportunity to testify.

As a Commission we stand unanimous, Mr. Chairman, in our belief that our recommendations strengthen the foundation of the All-Volunteer Force. It secures our national security and honors those who serve and the families who support them now and into the future.

Our recommendations maintain or increase the overall value of the compensation and benefits for service members and their families, and provide needed flexibility for service personnel managers to design and manage a balanced force.

Our blended retirement plans expands benefits from 17 percent to 75 percent of service members, while maintaining the service's current force profiles. It provides flexibility for service members and its services while protecting and improving the assets of service members who retire at 20 years of service.

These findings are based on reasonable and conservative estimates, including TSP [Thrift Savings Plan] investment returns of 7.3 percent, and retired pay costs of living adjustments of 2.3 percent.

To maintain current force profiles, TSP contributions were not recommended beyond 20 years of service. However, the consideration of matching contribution that continues beyond 20 years of service may be an area the committee wishes to explore.

Our recommendations promote essential high-level focus on readiness through a new Joint Readiness Command that can serve as a strong advocate for readiness funding and maintenance skill standards.

They expand choice, access, quality and value of health care by offering family members, Reserve Component members, and retirees a broad choice of insurance plans that are more flexible and efficient than the current TRICARE system. They maintain savings on groceries and other essential goods while improving the cost-effectiveness of DOD's [Department of Defense] commissary and exchanges.

Our recommendations also save more than \$12 billion annually after full implementation without cutting the overall benefit of service members. Our recommendations align compensation to the preferences of service members, which were partially measured through the more than 155,000 survey responses we received.

Our survey methodology, which was new to the military community, captured preferences for the alternative benefit level. Its analytical tools then enabled for the first time direct comparison between the value of that service member's place on varying compensation and benefits packages.

The survey validates the many comments we received from service members and their families at the 55 installations that we visited. Our recommendations incorporate substantial consideration of potential second- and third-order effect, which are reflected in our implementation timelines.

Advancing these implementation timelines due to budget constraints may lead to an unanticipated cost, implementation challenges, or even failed modernization efforts. An example may be accelerating the multiyear backend operational efficiency of our commissary and exchange recommendations.

In closing, my fellow commissioners and I again thank you for the opportunity to testify before you today. And we stand ready for your questions, Mr. Chairman.

[The joint prepared statement of the commissioners can be found in the Appendix on page 36.]

Dr. HECK. Thank you, Mr. Chairman. So no other opening statements?

Mr. MALDON. That is it.

Dr. HECK. Great.

Mr. MALDON. Thank you.

Dr. HECK. We will now begin with a 5-minute round of questions for the members of the panel.

Again I want to thank all the commissioners for being here. And certainly I have got a lot of questions that probably go far—too far into the weeds at this level that we will probably address in later hearings or roundtable briefings with some of the Commission staff members. A couple of quick ones.

You know when we talk about some of the rationales and assumptions used to come up with some of the recommendations, I was intrigued by one of the health care recommendations, specifically when it went to the dependent health care and enrolling them in some type of FEHBP [Federal Employee Health Benefit Plan]-like program and not under TRICARE.

From the report, and I will quote—"There are limited provider networks. Another important part of good access to care is having ample health care providers available to provide treatment. TRICARE networks of civilian health care providers, however, are limited because TRICARE reimburses providers for health care procedures at a rate equal to or lower than Medicare reimbursement rate. By reimbursing doctors at rates equal to or less than Medicare levels, which are less than market rates, TRICARE has been unable to attract enough quality doctors. In contrast, commercial insurance carriers in the civilian sector offer fair market value for physician services."

As a health care provider for over 30 years I question that assumption because most even private health insurers right now base all their reimbursements on Medicare rates. And so there is really not I think a big difference between what you are calling fair market rate and what most private health care insurers are providing as reimbursements to their network.

So can you walk me through that, how you came up with that statement?

Mr. MALDON. Yes, Mr. Chairman. I am going to ask Commissioner Buyer to speak directly to that question.

Mr. BUYER. What we did is we took the time to actually get into this question.

So with regards to the contractors themselves, Congress basically said we are doing this to put pressure on DOD, say you know what, we need to rein in this program. We want it to be Medicare rates.

What did the contractors do? They took it even further. We had to negotiate with providers for rates below Medicare.

What impact did that have upon the system? It began to limit the network with regard to providers who participate under TRICARE.

So if you can pick—we chose three different areas: Fayetteville, North Carolina; Phoenix, Arizona; and San Diego. We chose different specialties. We had to examine those carefully.

So take the North Carolina one. With regard to OB/GYN [obstetrics/gynecology] we said okay, of the network, if you look at the Blue Cross Blue Shield plan—

Dr. HECK. I have just been informed that you need to be on a microphone somewhere so it gets recorded.

Mr. BUYER. If you look at Fort Bragg, Fayetteville, North Carolina, for OB/GYN, and we said okay, what does a robust network look like? So what does Blue Cross Blue Shield provide? How many OB/GYNs signed into Blue Cross as an acceptable provider under their standards, right? One hundred fourteen at Fort Bragg.

GEHA, the Government Employees Health Association a very—I would call it a similar plan to what TRICARE offers. How many signed into a GEHA plan? Forty-three providers. How many signed into TRICARE? Oh excuse me, I am sorry, 87. How many signed into the TRICARE program? Thirty-six, 36.

Now you can go down all the different specialties here—

Dr. HECK. No, I agree with you that there are fewer providers in TRICARE than in the private plans. But how do you draw—

Mr. BUYER. No, not in the private plans. This is in TRICARE.

Dr. HECK. No, no. That is what I am saying. In the TRICARE versus private plan.

Mr. BUYER. Versus the private plans. You have got 114 OB/GYNs—

Dr. HECK. But how do you make that connection that the reason for the lower number in TRICARE is due to reimbursement rates? That is my question.

Mr. BUYER. Go talk to them. We have done our sensing sessions. We went around the country. We spoke to the family members. We spoke to the service members. And it is a reimbursement issue that these providers are not signing onto TRICARE. And it is a very—it is a severe issue.

You asked us to look at this program. And what my commissioners and I we agree this is—TRICARE is a broken program. You are going to receive a lot of pressure from those across the river and institutions and the contractors to convince you otherwise.

That everything is okay with the TRICARE program. All we need to do is make little tweaks here and there and everything is just fine. Do not get sucked into the status quo. That is my best counsel to you.

Dr. HECK. I appreciate that. Thank you. My time is expired.

Mrs. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman. And I want to follow up with this because I think the health care piece is really such a critical one.

So you mentioned the fees that physicians would receive. What other systemic issues did you see in TRICARE that could not be fixed easily, or—

Mr. BUYER. Well, one of the systemic issues is one that you have to deal with every time.

So what does the building do? Basically you have a structure of TRICARE that has a limited provider network. It is very cumbersome with regard to its scheduling. And that is the access getting into the system. Not only to primary care, but then also then to specialty care.

You went through all the debacle with the VA [Department of Veterans Affairs], right. And what upset a lot of people, yes, that there were delays in getting those appointments. The greatest insult was the integrity issue, right, at the VA.

We have that very same issue in DOD with regard to access to care and the delays of getting my primary care appointment and to specialty care appointments.

Mrs. DAVIS. Yes, and—

Mr. BUYER. I would say that is—

General CHIARELLI. I would add contracting. I would add contracting to that.

The whole contracting issue on these TRICARE contracts are 5 years in duration. And then you add another 3 while you go through the protest period. So we end up 8 years behind. They are very hard to modify.

So when new medical breakthroughs take place they are not just automatically integrated into TRICARE. You got to wait until the next contracting cycle to get them in. So you are receiving medical care that is 8 years in arrears.

We sent people to the National Intrepid Center of Excellence for traumatic brain injury and post-traumatic stress. They got a care plan put together and then they go to their post camp station. Some of it has to be done on the TRICARE network, and TRICARE refuses to pay for it.

Admiral GIAMBASTIANI. I would also say—

Mrs. DAVIS. One more?

Admiral GIAMBASTIANI. I would also add that what is important about these contracts I have said to you and the full committee that I personally believe and I think our Commission believes that TRICARE is in a death spiral.

Another way of describing how each cycle of contracts when we are looking for money, we restrict some of the procedures a little bit, eliminate a procedure. We reduce the number of zones. We try to make all of these marginal changes to try to capture every dollar. We go below Medicare rates, which is part of what Commissioner Buyer was just showing you.

And the bottom line is that service continues to get less and less. It drives down that access and choice and the providers who are present. And this is why I call it a death spiral. It has continued since inception to move in this direction.

Mr. BUYER. Ma'am, one of the biggies is utilization, utilization management. So when you say where does a big chunk of savings come from? It is going to be in improved utilization of program management. And so our modeling estimates about \$5.2 billion in savings because the TRICARE model does not have this right now.

Mrs. DAVIS. As you move in talking about the military Federal employee benefit plan, would the MTFs [military treatment facilities] not be utilized? And is that not a problem as well?

General CHIARELLI. It is absolutely critical that they be utilized. It absolutely—

Mrs. DAVIS. But what if they go outside the system? Wouldn't they go outside the system?

General CHIARELLI. That would be available in all our plans to be used by dependents. So dependents will have the opportunity either to go on the market to a private provider or to use the MTF.

The MTF—this is going to strengthen the MTF. And I would just remind the committee, the number one requirement that we have a separate health care system is combat medical readiness, the ability to pick up doctors and move into a field of battle.

Everything we do with this system has got to be built around ensuring, as I mentioned before, that the individual that is wounded on the first day of battle gets the same kind of care that the person on the first day of the 13th year of battle. And what we have to do is improve the kind of procedures and cases that are seen in the MTFs. And we think this will do that.

Admiral GIAMBASTIANI. The intent is to incentivize in the plan, because the MTF will be one of the providers, is to incentivize the use of the MTF to draw the patients there.

Mrs. DAVIS. In your discussions though did you talk about what if that is not the case? What if they do go outside the system? Wouldn't that be more expensive? And they didn't utilize the MTF.

General CHIARELLI. No. They would be billed in the same manner. The MTFs will bill for—as part of the insurance market. As part of the insurance plan they will bill.

So I think in some instances they will go outside. But that is one of the reasons why we think the Readiness Command is absolutely essential is that Readiness Command has to be there to oversee this whole process and ensure that we are making the right investments in personnel and in our MTFs to make them viable providers as part of that insurance plan.

Mr. MALDON. Ranking Member Davis, currently under the current system of TRICARE people go outside—they go outside now to get that care when they can't get it within the MTFs.

Mr. CARNEY. And Congresswoman, this is kind of about readiness also. And not just readiness for the Active Force, but also the Reserve Force.

As a reservist who did not have good access to a TRICARE plan—it wasn't called TRICARE for us. It was called "try to find care." And that affects readiness. If you are not medically ready, definitely ready, you are not going to be ready to fight the Nation's wars. So this access is also about readiness.

Mrs. DAVIS. Thank you.

Dr. HECK. Thank you.

Mr. MacArthur.

Mr. MACARTHUR. Thank you, Chairman.

I had, if I remember right, had read that the total savings from your TRICARE recommendations were about \$6 billion. And I just want to understand what of that is the result of structural changes and what of that is the result of increased cost sharing with our military personnel?

Mr. MALDON. Yes. Congressman, for improved utilization and program management, just in that area alone there is \$5.2 billion. There is an increase to the cost to beneficiaries. There is an increase there of \$2.0 billion. There is a movement as we shift to accrual funding, that is a \$4 billion savings.

Now, that gave us of course a total of about \$11.2 billion. But, what we have proposed is to turn around and invest in benefits to improve the quality of the program, which will be TRICARE Choice. And also to make sure that there are some other insurance reforms that would take place.

So we have allowed for that. So there is about—there is roughly \$2.7 billion that is spent for the insurance reform. There is another \$4 billion that we are spending here for making sure that we can put money back into the system to make it better with regard to choice, access, and improve the overall value of that program by expanding the network.

So totally yes, we are talking about somewhere between—about \$6.7 billion.

Mr. MACARTHUR. You lost me a little bit I am afraid.

The first \$4 billion—you mentioned \$5.2 billion in utilization changes. So that is savings. Two billion in increased cost to personnel, I guess in the form of either rising premiums or co-pays or however that is fleshed out.

And then you mentioned a \$4 billion that got you up to that initial \$11 billion. What was that \$4 billion?

Mr. MALDON. That is the accrual. That is the shift into accrual, accrual funding. When I talk about the cost to beneficiaries, that is that cost share increase there to the retirees that are non-Medicare eligible.

Mr. MACARTHUR. Help me understand the accrual funding. I am not sure what you mean.

Mr. MALDON. I am going to ask Commissioner Higgins to talk specifically to that in that area, please.

Mr. HIGGINS. Thank you, Mr. Chairman.

The accrual funding deals with trust funds. And we have a trust fund in retirement. And Department of Defense pays into that trust fund every year the cost of future retirements for people in the force.

We would propose that for health care that the non-Medicare eligible retiree be included in a trust fund. So we would begin at that point to pay for the non-Medicare eligible retiree health care out into the future.

And the DOD Actuary worked very, very closely with us on this. And the conclusion was that that normal cost percentage is what it is called, that contribution from discretionary dollars into the trust fund would be \$4 billion savings that we would accrue to the Department of Defense in budget.

Mr. MACARTHUR. Savings against what other option? Savings against funding it in the future without accrual?

Mr. HIGGINS. Savings against current funding levels that are being expended directly to health care.

Mr. MACARTHUR. I may want to visit with you later on that. I think I am beginning to understand what you are talking about. I am not sure I understand exactly where the savings are coming from there, but I get the concept.

Mr. HIGGINS. One of the future force that you are paying for at that moment is going to be a smaller force. And I think that is one ingredient that causes those normal cost percentage payments to be lower, to give you an idea of what you just mentioned.

Mr. MACARTHUR. So if—and this is just a conclusion—if we rejected the—and I am not saying we should, but if we said there is enough change here, let's not also make our military personnel bear some cost, and we didn't shift \$2 billion, we would still save \$11 billion on this conversion to private health care networks as opposed to TRICARE. Is that a correct conclusion?

Mr. HIGGINS. There would be an element of the savings that would not appear at that point.

You would have savings that would be reaped by the Department of Defense because of increased premiums paid by the non-Medicare eligible retirees. Those savings, about 18 percent of the total savings would no longer be available.

Mr. MACARTHUR. I thank you. I yield back.

Dr. HECK. Mr. Walz.

Mr. WALZ. Thank you, Mr. Chairman.

Again, thank you, commissioners, for your hard work. And just like you, our major concern here is whatever we do must not negatively impact national security. We must maintain the integrity and the readiness of the All-Volunteer Force. And we must keep faith with those warriors who are there.

I understand, and the argument to be made is, is that you will negatively impact national security if you don't address these things. Because yesterday many of us were up with General Dempsey who made the case that it is impacting our ability to do that.

And he made a pledge to us. He said the savings we get out of paying compensation will be put back into readiness. And he is making a very solid argument on that.

I said the thing I keep—and again it is for us more than you, encourage you on this is what I heard him say is that as a senior enlisted guy I am going to go out and say okay, you are going to pay some co-pays on this. There are going to be some changes to health care. We are going to 1 percent instead of 1.5 percent on this. But you are going to get an extra rotation at NTC [National Training Center]. So it is all good.

That is a very difficult sell to them. Maybe not to the senior folks about what is going to be there, but that is what we are up against. And actually, not facetiously, that readiness piece is absolutely critical.

And as a trooper I understand when readiness suffers the Nation's security suffers as well as the wellbeing of your troops. They don't

want to sit around. And they certainly don't want to be asked to go to war without having everything they get.

So I get it on this. I would say this issue and the TRICARE one, there are some difficult challenges here. And one is, again, to remove it from it, there is a 900-pound gorilla in here of a large number of these people who are suspicious of moving off a program that they know. Again, the devil you know is better than the one you don't know, especially when they have been told that private market includes the ACA [Affordable Care Act], which they are told might not work or whatever it might be.

So it is very difficult. I can tell you this. On my last appointment I had TRICARE Prime Remote that works beautifully. It is also very expensive. Am I correct, Mr. Buyer, in how that works?

So we can't provide that for everyone. But what we are up against is, is my wife until this day claims the military's health care when you were deployed was the best insurance we ever had. It was all taken care of. TriWest handled it all and all was good to go.

So I come back to you and ask. And last week the question I had was—I am not sure which of you said this, but it struck me, said that you need to take this package and not start ripping it apart because you will have second- and third-degree effects.

It may be true, but that makes it virtually impossible to get it through here. And that is what I am struggling with.

Because you are saying—because what I would say is I think the housing allowance on the GI Bill is a lightning rod that is going to come back to haunt us in that it makes us appear like we are breaking faith and then it makes this whole case harder.

Because I understand. And I am—in full disclosure I am a life member of many of these VSOs [veteran service organizations]. My question to you is we can't break it apart. How much inclusion from the MSOs [military service organizations] and VSOs happen in what you did? Or did you try and isolate yourself from the case of undue influence?

Mr. MALDON. Congressman Walz, let me go back and first address one of the comments that you made if I might. We are not cutting benefits to the members of the force. That is not happening in our recommendations, number one.

Number two, there aren't any tradeoffs to this. The benefits—when we talked about the cost savings to the beneficiaries has nothing to do with our service members that are currently serving.

This has to do with those retirees that are non-Medicare eligible retirees that age—that is between the time that they retire up to 20 years or whatever that period of time is that they retire the service until the time that they get to the point that they can start receiving Social Security and so forth.

So it is during those working years. That is that 1 percent increase per year starting from the 5 percent that it is today under the current system. And it goes on a slow ramp of 1 percent per year over the next 15 years until it gets to the 20 percent point.

So that is that cost savings there. It is not for the—not bothering anything with the benefits of the service members that are currently serving.

Mr. WALZ. Chairman, is it concerning—and again, I appreciate that clarification. And I think I need to be very careful in choosing my words.

But you got a gray area retiree who is listening to this as a member of those. And I mischaracterized, if you will, because I have a predisposition to think that, maybe, in full disclosure.

So what I am asking all of you to do is how do we get out there and talk to them about what their input could be.

And I go back to this. I am concerned about this. You either take this package or you mess it up. That is troubling for me that I think it makes it much harder for us to do.

Mr. MALDON. I am going to ask—let me ask Commissioner Chiarelli to respond first.

General CHIARELLI. I made that comment. And I think it is just absolutely essential. And without getting into the specifics, before you start taking it apart you work with us so that we can in less than the 3 seconds I have to answer your question lay out for you how these recommendations support each other.

Readiness Command is absolutely essential to what we are doing in medicine. And we feel that Readiness Command is absolutely essential because every single one of our recommendations in one way or another touches readiness.

Mr. WALZ. So I need to see it as a whole, not three silos.

General CHIARELLI. Or at least come to us and our staff and questions for the record that we can explain to you in greater detail how these recommendations work together.

Mr. WALZ. Thanks.

[The information referred to can be found in the Appendix on page 51.]

Dr. HECK. Thanks, Sergeant Major [Walz]. Mr. Cook.

Mr. COOK. Thank you, Mr. Chairman.

I have been listening to this. And I got to be honest with you, I am a little bit confused. And Sergeant Major, you made some great points.

Twenty, thirty years ago I think I used to understand this. And now I feel like I am in the middle of a calculus problem.

You know I am retired, General. I used to—when I was younger the big thing for recruitment, and a lot of us have recruited here, was the fact that the government would take care of you if you served 20 years or even longer.

And things have changed. Now my primary health care is Medicare. My secondary is TRICARE. And when I hear all these conversations it is like—and I try to listen to some of the veterans that I have there.

They are—it is tough enough dealing with the veterans issues that come down and dealing with the VA. And we are making some of these issues very, very complex.

At least I am not as smart as you guys. I am just a dumb Marine up here that is trying to get through. And my primary concern is to take care of the troops, the ones that have gone through this.

God, can't we make it any simpler or what have you? It just seems that we have thrown out the KISS [keep it simple, stupid] principle.

And for these veterans, for people that are on Active Duty TRICARE and the changes to it. Every time we change it—and I was there some of the meetings with TriWest and how we are going to do it.

I appreciate that you are trying to do something. But we have got to have a standardized message and make it as simple as possible. I don't understand the tables and so many doctors doing this and that.

All I know is that many years ago I thought we were going to have medical care to take care of those people who stayed in long enough to retire. And that situation to me is constantly changing because of budgetary pressures. And I get it.

But if we can simplify it because the people that are watching when I go and try to explain this to them, I can explain you know tanks and airplanes and everything else. What you deal it is as I said, this is another calculus problem, or a calculus course, which I didn't do first well the first time when I was—as an undergraduate.

So I don't know if I have a question. I just am—I did—I was concerned about where those individuals that are on Medicare and TRICARE. It seems like no one even wants to even address TRICARE when they hear I have Medicare. And they don't default to that because it is too complicated. Is that a correct statement or not in terms of the medical world out there right now that I deal with?

Admiral GIAMBASTIANI. If I could—

Mr. MALDON. Yes. Go ahead, Commissioner Giambastiani.

Admiral GIAMBASTIANI. Yes. Let me try to take this. First of all, if you look at this panel, I am guesstimating that we have something like 140 years of military experience up here.

Mr. COOK. Somebody older than me then, right?

Admiral GIAMBASTIANI. Yes. There are many of us who have some age.

We are all geezers. And let me just say that we have spent a lot of time trying to make sure we are taking care of the troops because of the pain that we have gone through in seeing how these systems either work, don't work, or continually get degraded, which is why we came to where we are.

So let me just quickly encapsulate one. If you are retired and you are a Medicare-Social Security eligible person, I am, you are. Pete isn't there yet or you are close?

General CHIARELLI. One month.

Admiral GIAMBASTIANI. One month. Okay. If you are in that case you will continue to serve with TRICARE for Life and Medicare. None of that changes from today for a retiree who gets to that.

The area that the chairman already talked about, the working age retiree, you retire, you are not Medicare or Social Security eligible as yet. You are going to have a co-pay that goes up. And you are going to go into a series of health care plans that are a separate risk pool just for military.

This is not the Federal program that we are just jumping into. This is separate for our folks to protect them. But the big thing is the military treatment facilities are in that program.

Then for Active Duty we still use the military treatment facilities and all of the military medical care for the Active Duty personnel. No differences.

What is different now is that we have TRICARE Choice for dependents, folks who can't get to a military treatment facility, for example, like a recruiter, people out in the hinterland, who are out doing the work for our military today. They are in that same type of program, if you will, that our retirees are in, except that we give them a basic allowance for health care to defer the costs of the premiums and the co-pays and the rest of it.

That is as simple as I can make this system for you. It is a change. But we think it will significantly improve access, choice, and frankly the quality of the system.

Dr. HECK. Thank you.

Ms. Tsongas.

Ms. TSONGAS. Thank you, Mr. Chairman.

And thank you all for being here. I very much appreciated your presence before the full Armed Services Committee.

I thought it was one of the better if not best hearings we have ever had. And I think your conversation today is very reflective of just the ways in which you have really worked very hard around some very complex issues. And the deep understanding you bring to it.

Both the politics have changed, which are always so difficult, especially as we deal with our military who so ably and nobly served our country, and for whom we all feel a deep obligation to do the right thing. And I know your task was not a simple one.

I would like, as I turn away from the changes to health care and focus on one of your recommendations that I think actually highlights a real plus. And that was your efforts and your recommendations about reforming the military pension system.

So as you stated in your report, more than four out of five service members currently leave the military before reaching 20 years of service, and thus they leave the force without any retirement pay.

I think this is particularly true and egregious of our Nation's ground combat troops who have been repeatedly deployed over the past decade. And today fewer than 15 percent of U.S. soldiers and Marines will serve a full 20 years, meaning that most will separate from the military without any retirement savings.

So I would like just to give you the opportunity to sort of highlight the changes you are recommending that can make a real difference so that those who do so ably serve but don't commit or serve for 20 years, when they walk away they walk away with something that makes a real difference as they move into civilian life.

And also if you could just talk about the tradeoffs you were thinking through. I mean I think this is a real plus that needs to be highlighted, especially for those who might think they are losing in other areas. And how the balance was struck. Were you thinking that way?

And I don't know who wants to take the lead.

Mr. MALDON. Congresswoman, first thank you very much for the question. When we deliberated on our recommendations here, one of the things that we really wanted to do, and we were unanimous

in this, is that we wanted to make sure that we could actually expand that number of service members that were actually going to receive a retirement benefit when they leave the service.

We were concerned about the number of people that come into the military and will make two to three deployments or just stay in for a good period of time and then wind up leaving the service and then not have anything at all.

We believe that the recommendation we have made here to expand that percentage from 17 percent of the people that are currently leaving to 75 percent of the service members that would be leaving, we believe that is going to really help with retention and the recruiting, especially with recruiting.

Because when these service members leave with something they get a new start in transitioning into civilian life again. But they also become goodwill ambassadors for the service because they are going to be able to talk about the great experiences that they had and how the services really took care of them.

When we talk about really taking care of the service members, this is part of it. And I am going to ask Commissioner Higgins to fill in some here with regard to the rest of your question.

Mr. HIGGINS. Thank you, Mr. Chairman.

Regarding the issue of tradeoffs, what I would emphasize is that we believe our analysis. And we had what we think is very credible analysis by RAND Corporation.

And the tradeoff was simply designing a system that delivered the force profiles because that is what the Chiefs, the Joint Chiefs, insisted that we do. That was our target objective.

But modernization was what we found we really wanted to also achieve after we went out and talked to the force. They want choice. They want flexibility in their system. That is a new generation speaking to us. And we wanted to deliver on that requirement.

But we wanted to hit those force profiles. And that is how—that was the tradeoff. That is what led us to the Thrift Savings Plan, which is a little richer benefit than you will find in the government civilian FERS [Federal Employees Retirement System] system; it is—if they get 1 percent mandatory. And then if they contribute 5 percent, that is a total of 6 percent, which in the FERS system would be only limited to 5 percent over the long run.

But there is that Thrift Savings Plan. And that is how we deliver a benefit to those individuals that were not going to receive anything under current 20-year cliff vesting.

Ms. TSONGAS. So you are both creating a new opportunity that does require people sort of opting in. And I appreciate the financial literacy component that comes with it.

Mr. HIGGINS. Right.

Ms. TSONGAS. To give those some training to think this through.

Mr. HIGGINS. Exactly.

Ms. TSONGAS. While you are also trying to figure out how to meet the needs of the force. But is a plus. Thank you.

Mr. HIGGINS. Yes.

Dr. HECK. Thank you.

Mr. Coffman.

Mr. COFFMAN. Thank you, Mr. Chairman.

It is my understanding that the new retirement system is all defined contribution. Am I correct in that? The proposal?

Mr. MALDON. Yes, it is. Yes, it is, Congressman.

Mr. COFFMAN. Was there a consideration for a bifurcated system that would be part defined benefit with a vesting period and then maybe going later on and then the other part of defined contribution?

Mr. MALDON. Congressman, I am sorry. I heard the last part of your question a while ago. Maybe I didn't hear the whole thing. We have a blended retirement plan.

Mr. COFFMAN. Okay.

Mr. MALDON. Okay.

Mr. COFFMAN. Can you briefly explain that again?

Mr. MALDON. Yes. The blended retirement plan is that we actually preserved 80 percent of the defined benefit plan. And so the defined contribution piece of that is the TSP. That is the Thrift Savings Plan piece of that where we—it is a government-sponsored program where the government will put in the 1 percent for every service member entering the service.

And then at the third year, the first day of the third year, then there is an opportunity for a 3 percent matching by the government, if in fact the service member is putting in that 3 percent, there is a 3 percent matching that comes with it that could actually even go up to 5 percent, depending on whether or not the service members want to put in that amount of money.

Mr. COFFMAN. Then when is the vesting for the defined benefit part?

Mr. MALDON. It vests the first day of the third year.

Mr. COFFMAN. Okay. And then when do they draw this? So right now under the current system you serve 20 years. And the day that you leave you start drawing.

And it is a factor—so if somebody serves 20 years they get 50 percent of their base pay the day after they leave the military. What is it again under your system, proposed system?

Mr. MALDON. Commissioner Higgins.

Mr. HIGGINS. Sir, the vesting at 2 years is actually the defined contribution, okay. The defined benefit remains a 20-year vesting requirement. They have to serve 20 years to get to the defined benefit, which is slightly reduced.

We retain 80 percent of the cliff vesting. But we do reduce that multiplier to 2 percent, which yields a 40 percent of base pay at 20 years of service. And it is immediately drawn.

Mr. COFFMAN. Was there any discussion about a bifurcated system whereby one could serve less than 20 years, vest into the defined benefit component, and then maybe not draw until as a reservist.

With Reserve retirement, I draw at age 60; maybe then not draw until later on that defined benefit portion? Was there a consideration for that?

Mr. HIGGINS. It was certainly an area we discussed. Now, our recommendation—

Mr. COFFMAN. Sure.

Mr. HIGGINS [continuing]. Does include a flexibility where the Secretary of Defense could come in and offer a solution like the one

you are talking about, and maybe see a change to the system for a select group of an individual MOS, military occupation, specialty or skill or segment of the population.

So there is some flexibility in our system, which is important because that is derived by the services. I am not sure I answered your specific—

Mr. COFFMAN. No, you did.

Now on the TSP part—

Mr. HIGGINS. Right.

Mr. COFFMAN [continuing]. Defined contribution component—

Mr. HIGGINS. Right.

Mr. COFFMAN. Is that a mandatory—so if I opt into this system—

Mr. HIGGINS. Yes.

Mr. COFFMAN [continuing]. Which then is an 80–20 split to the old system—

Mr. HIGGINS. The defined benefit is.

Mr. COFFMAN. So now it is 80 percent of—

Mr. HIGGINS. It is 20 percent less, you could say.

Mr. COFFMAN [continuing]. 20 percent—right. Then is that a mandatory—if, in other words, if somebody opts in, is that a mandatory participation in the TSP? Or can they simply—well, I see that—I don't know why somebody would do it if it wasn't I suppose.

Mr. HIGGINS. The Thrift Savings Plan—

Mr. COFFMAN. It would be—

Mr. HIGGINS [continuing]. For new entrants—

Mr. COFFMAN. Yes.

Mr. HIGGINS [continuing]. Would be an automatic enrollment at a 3 percent contribution.

Mr. COFFMAN. And from the—okay. What is it, is it a 3 percent match as well?

Mr. HIGGINS. No, not initially. The 3 percent—any matching government contributions don't start until the first day of the third year. So immediately after they serve 3 years—

Mr. COFFMAN. So it is all based on the individual service member initially for the first 3 years.

Mr. HIGGINS. Right. They are enrolled automatically. They can pull out and it is not an arduous process to pull out. But our analysis would indicate that a very high percentage, 97 percent, would not bother to remove themselves from the program. So we are really encouraging thoughtfulness about saving and finances.

Mr. COFFMAN. Thank you, Mr. Chairman. And they would choose certain investment—

Mr. HIGGINS. The Thrift Savings Plan is the same Thrift Savings Plan available to you. All those choices are there.

Mr. COFFMAN. Okay.

Thank you, Mr. Chairman. I yield back.

Dr. HECK. Thank you.

Ms. Speier.

Ms. SPEIER. Mr. Chairman, thank you.

And again to each of you, I think you have heard it over and over again, but your contributions have been profound. And I would agree with my colleague Ms. Tsongas that it is probably the best

hearing that we have ever had. We just now have got to inject a little guts into all of us to do the right thing.

Let me start off by addressing—as we heard earlier this morning about how we save money within Defense, the biggest way to save money, the most effective way is through military personnel. And they have suggested about \$6 billion would be saved through health care and about \$2 billion through retirement; I believe is what they said.

And as I look at the health care component here, if in fact what we are saying is that it is going to go up 1 percent per year. Is that—am I understanding that correct, 1 percent per year? And right now it is about \$535 a year. Is that right?

Mr. BUYER. I don't know the exact number, but that is pretty close.

Mr. MALDON. Yes.

Mr. BUYER. It was—

Ms. SPEIER. Pretty close.

Mr. BUYER [continuing]. 1994 when it started. It was a 27 percent premium. It has eroded to 5 percent.

Ms. SPEIER. So it is costing about—let's just say round numbers, \$500 a year. A 1 percent increase is \$5.00.

I mean I think we have to pitch this for what it is. You are going to have better health care. You are going to have a bigger network. And it is going to cost you one Starbucks latte a year. Are you in?

Mr. BUYER. Bingo. Thank you. Conclude the hearing.

Mr. MALDON. I totally agree with you.

Ms. SPEIER. So we have got an education job to do. And I think we have got to man up to what we have to do. Because this is critical to the readiness of our troops, to the ability of our Department of Defense to be properly funded, and to the American taxpayers who don't want to spend any more money on anything.

So I just wanted to clear that particular point up. On the TSP, the Active Forces now would be able to sign up right away. Correct?

Mr. HIGGINS. They can sign up today. And they do. The participation rate in the Thrift Savings Plan among Active Duty people is roughly 42 percent. What they would not and do not get today—

Ms. SPEIER. Is the match.

Mr. HIGGINS [continuing]. Is the match.

Ms. SPEIER. So would they immediately get the match if they are Active Duty today? Or would they have to wait the—

Mr. HIGGINS. The match would not start until they completed their 2 years of service. The first day of the third year is when the match—

Ms. SPEIER. But you said they are already serving.

Mr. HIGGINS. They are already serving. They are automatically enrolled and a 3 percent deduction from their pay and a 1 percent mandatory government contribution.

Admiral GIAMBASTIANI. If they opt in.

Mr. HIGGINS. This is—I am sorry. Are you talking about currently serving people?

Ms. SPEIER. Right.

Mr. HIGGINS. If they opt in?

Ms. SPEIER. Right.

Mr. HIGGINS. The answer would be yes, then. I was referring to new entry—

Ms. SPEIER. No, I understand you were. But I was trying to address the fact that if we have Active military now—

Mr. HIGGINS. Yes.

Ms. SPEIER [continuing]. They are contributing. They would start getting the match. Correct?

Mr. HIGGINS. That is correct.

Ms. SPEIER. And they wouldn't have to wait 2 years because they are already Active military.

Mr. HIGGINS. Assuming they have been in 2 years, right.

Ms. SPEIER. Right.

General CHIARELLI. But they would have to opt in.

Ms. SPEIER. But they would have to opt in.

Mr. HIGGINS. Right.

General CHIARELLI. They can stay under the current program if they so desire.

Ms. SPEIER. Now, in terms of the contractual relationship that exists in the defined benefit plan, for those persons right now who are in military service working toward their 20 years, have not yet reached their 20 years, do we have a contract with them to allow them to stay in the old system?

Mr. HIGGINS. Yes.

Ms. SPEIER. So this is only going to be for persons who are new—

Mr. HIGGINS. New accessions.

Ms. SPEIER [continuing]. Enlisted—

Mr. HIGGINS. Correct.

Ms. SPEIER. Coming in after the law passes?

Mr. HIGGINS. Correct. Or those that opt in that are currently serving.

General CHIARELLI. And quite frankly we expect that number to be fairly high, particularly if you haven't served for that long.

Mr. HIGGINS. Right.

Ms. SPEIER. Right. So for anyone who is presently serving in the military, their pension isn't going to change.

Mr. MALDON. Correct.

Mr. HIGGINS. Unless they want it to.

Ms. SPEIER. Unless they want it to.

Mr. HIGGINS. Right.

Mr. MALDON. Correct.

Ms. SPEIER. But anyone today, regardless of whether you served 1 year or 10 years or the 20, nothing is going to change.

Mr. MALDON. Correct.

Mr. HIGGINS. That is correct.

Ms. SPEIER. All right. It is really important for us to get that. So for all the people we are talking to that are in service right now, nothing changes unless they want to participate in this new TSP that is going to have a much more healthy match by the Federal Government.

Mr. MALDON. Right.

Mr. HIGGINS. And other elements of our proposal, which is continuation pay would be paid. The option to go over the lump sum on retirement.

Ms. SPEIER. I am sorry. My time is expired. But thank you very much.

Dr. HECK. Mr. O'Rourke.

Mr. O'ROURKE. Thank you, Mr. Chair.

I would like to continue this line of questioning, the comments made by Ms. Speier about the political guts necessary to pass and implement the work that you have brought before us.

Talk a little bit about the survey and the surveying that you did. And I know that you published the questionnaire and the results online. I thank you for your transparency.

Talk about how those survey results factored into your recommendations, and whether or not there has been any survey since the whole of this has been presented. And if so, what the feedback is on that. I think that might inform some of the work that we have to do in order to ultimately pass something like this.

Mr. MALDON. Thank you, Congressman, for your question. We actually surveyed 1.3 million retirees. We actually surveyed over 550,000 Active Duty/Reserve Component members. And the survey—and we not only surveyed them, I have got to tell you that in addition to the surveys that we conducted and the responses that we got back, we actually also collected all kinds of comments from service members that came back to us, both retirees as well as Active Component members, saying here is what we prefer as a value.

This is what we value and in terms of our benefits here is what we—and part of what the reason we got to the recommendation that we got to on retirement is because they came back and said we want something different than a one-size-fits-all under the retirement plan that we currently have.

We want to be able to participate in that decision. We want to be able to tell you how to design—how we like to see our retirement plan designed, and how we would like to receive the benefits of that plan, the compensation plan.

So what we have put together here came from both the surveys, the results of the surveys as well as the different hearings, the town hall meetings, and the other comments that we received by way of our Web site as well as comments coming into the office. A combination thereof.

Mr. O'ROURKE. Individual alternatives were surveyed. Was the final product surveyed? Or did you all solicit feedback from military service organizations, VSOs and—

Mr. MALDON. Absolutely.

Mr. O'ROURKE. The answer is yes. Okay.

But those—the results weren't—it informed and was a factor in the decisions that you made, the recommendations that you made. But if something scored very well and was very popular but you thought did not make sense, you did not make that recommendation. Is that—

Mr. MALDON. That is correct. Yes.

Mr. O'ROURKE. And if I could from Mr. Buyer would love to, following that and some of the questions that were just answered, you

were in our shoes. How do you move forward to produce the necessary political will in and out of this institution?

I am again thinking about veteran's service organizations, military retiree organizations, the people who come to my town halls every month. And you know it may just be 1 percent, but they look at that cumulative total over the next bunch of years and it adds up. And they have legitimate concerns about that. How would you present this in a situation like that?

Mr. BUYER. I think in the exercise of your intellect be methodical would be my best counsel to you. Methodical to you in that you have given us an assignment. You put together this Commission. We have worked very, very hard with a very talented staff. We dove into the issues that you get to work with, but we went deep.

You don't get the luxury of that time to go deep as we have done, and to listen to so many across the force, and then to survey it, be responsive to so many different concerns at so many different levels. And to go into the third and fourth degrees of consequences.

You only dream as a member to do that kind of thing, but you never have the time to do it. The luxury was you gave us that assignment. So we have applied our intellect to do that, and our scholarship is in our report.

Now, you also must filter. You have to filter the difference between the constructive critic and the critic. You also have to recognize that there is a bureaucracy out there that I call the mud or the muck. And they are defended by gargoyles. And those gargoyles that defend the muck will try to suck you in and hold you in place.

And being the agent of change is never fun. And that is what this committee gets to do. You get to be the agent of change because the force is ready and the time is now.

So be constructive. Listen to the constructive critic. The noise will always be there. They have to respond to membership. They have a different constituency than what you have.

Mr. O'ROURKE. Thank you. Thanks again for your work.

Dr. HECK. Mr. Knight.

Mr. KNIGHT. Thank you, Mr. Chairman. I would like to thank the committee for their work too. I have just a couple questions. And I think we are hitting down on it, that of the survey.

The survey was presented to service members today. And they were asked if there was another situation would you like it better. And you probably gave them some parameters. And then you went back and gave them another survey after the parameters were set. Is that correct, of the new program?

Because I am looking at this survey right here that says 80 percent of Active service members would prefer the current or proposed compensation system. And it says 80 percent would prefer the preferred proposed system. That is a tongue twister in itself.

Was the survey before this presented the same way and said that if we gave you this option to have this type of a system, as opposed to your current system? So it was apples to apples. That is what I guess I am asking.

Mr. MALDON. Yes. I think the answer to that question is yes. I mean what we really asked our service members to do in that 155,000 responses that we got back from the survey, we basically were asking them to actually stack and rack the benefits in priority

terms for them in terms of what they preferred here with regard to that benefit.

And so you give us your answer as to what is valuable to you as a benefit. Then we asked them to continue to compare one against the other.

So they were—you know they were basically asked—we used the survey as an analytical tool to really kind of really get them to really not only tell us what they value, but then to give it to us in terms of priority one against the other, one benefit against the other.

Mr. KNIGHT. So as I am going down my line of thinking here, I think it is fair if you offer somebody something and you say these are the parameters of what you are getting—your system is going to be, your retirement system or whatever it is, then I think it is fair.

If you offer a choice to the people who are currently serving or currently employed as it were in the private world, you have the option. You can jump onto this new program or you can stay on the program.

I think for us that have to sell this, that is a big selling point. We are giving you a choice. And you can stay under the current program.

So my last question is about retirees. So, say there is a retiree, they retired in 2008 or 2010 or whatever it is. How does this affect them? Do they automatically change over?

Because there can't be a changeover. There was no buy-in. There was no—they just stay in the old system. Correct?

Mr. MALDON. That is correct.

Mr. KNIGHT. So I am trying to figure out how I don't sell this. You have the option. If you don't want it, don't take it. If you do want it, it is probably a better system for you, especially for someone like me or enlisted out of high school and didn't serve 20 years. It would probably be a better program for me. Or for somebody who served 35 years it probably still is a better program for you.

So I don't know. How am I not going to be able to sell this?

Mr. MALDON. You know, Congressman, if I were in your position, I would be asking that same question. I don't know how I would, knowing what I know, from what we have done over the last 18 months to 2 years. I would have a very difficult time trying to figure out how not to get this done, to justify why we couldn't sell it.

Mr. KNIGHT. Mr. Chair, we all have gargoyles in our district. And they all protect the muck. So, that is what makes it hard.

Admiral GIAMBASTIANI. If I could add, I think the noise and misinformation, the gargoyles, whatever you would like to call it, that is what will muck this system up.

Frankly, everything we know based on surveys and response we get when you ask people about these systems, they would prefer to go with this newer system. There is no doubt. I think it is going to be noise and misinformation, frankly that will cause it not to be accepted.

Mr. KNIGHT. Thank you.

Thank you, Mr. Chair. I yield back.

Dr. HECK. Great. So since the bell hasn't rung, we will continue with some additional questions if members have some.

Mr. Jones had to leave. He has three questions that he would like answered. I am going to submit those to you for the record and then if you can get him responses I would appreciate it.

A couple of kind of just quick bullet questions that I have to make sure I understand some things.

So, service members auto-enroll, but may opt out. But then he is reenrolled the following January. Does that happen in perpetuity? So if he opts out the second January the next January he has reenrolled again?

Mr. MALDON. Yes.

Mr. HIGGINS. Yes.

Dr. HECK. And the thought behind reenrolling a person who has made clear he doesn't want to participate let's say for two, three, or four Januaries in a row?

Mr. HIGGINS. Well, we hope that after the third financial awareness session that we also call for that new wisdom will appear in that individual's mind and they will understand the importance of participation and change their course. I mean, we believe that the financial planning education is very critical here.

Mr. CARNEY. Mr. Chairman, if I might—

Dr. HECK. Sure.

Mr. CARNEY. I am the father of a lance corporal who is now making a few bucks. And his question to me was dad, what do you know about Ford F-250s? I said I know you can't afford them.

But these kids are out there making these kinds of decisions all the time. And you know how paternalistic do we want to be is kind of the question. And it is not really a paternalism question.

It is a readiness question. Because a lot of these kids get in financial difficulty and they lose clearances if they have them. Or they deploy and they know they have financial trouble at home and that is on their mind when they are forward. And that is the kind of stuff we are trying to get away from here.

Dr. HECK. Right. Thank you.

General CHIARELLI. They are going to look at that. They are going to be talking to their buddy. And their buddy is decided to stay in. And it is going to show on his or her LES, Leave and Earnings Statement, an amount of money that has accumulated.

And before too long they are going to be talking about you really get 6 percent match? You know, and this is an opportunity. And we just want to give them the opportunity to re-evaluate their decision not to play as often as we possibly can.

Mr. CARNEY. So one of the things we recommend is altering the LES to reflect what they are getting and what the projected is. Sort of like when you get your Social Security thing every year, if you stayed until 70, that kind of thing. So it gives them some more financial awareness. And also we want to include the families in the financial literacy as well.

Dr. HECK. Great.

I just want to be clear also on the match. So there is 1 percent automatic from the day the person signs the paper, and the auto-enrollment at a 3 percent deduction, which they can increase, decrease or opt out of. But the government match does not begin until the first day of the third year of service.

Mr. HIGGINS. Correct.

Dr. HECK. Okay. Because that is what I read on page 37.

And then on page 38 there is a bullet that says service members should be vested in their TSP after two complete years of service. The standard 1 percent contribution and matching contributions provided by the uniformed services. But up until that date there has not been any matching contributions.

Mr. HIGGINS. That is correct.

Dr. HECK. Okay. Just wondering because there was kind of—it made me wonder.

Okay. I will leave it there and yield to Mrs. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman.

Can you help me understand a little bit more about the continuation pay? Because the plan has—the continuation pay bonus has a 12-year mark. Correct? And service members can be encouraged to stay until 20, but it only requires 4 additional years.

But you are assuming, I think, that the continuation pay would be invested into the service member's respective retirement plan. Is that true? And what if that assumption doesn't bear out?

Mr. MALDON. Commissioner Higgins.

Mrs. DAVIS. And I guess the bottom line too, Mr. Higgins, is so what is the comparison on the monthly current system and proposed system at that point in time, so after the 12-year mark?

Mr. HIGGINS. Certainly we would hope that after receiving continuation pay they would invest that amount of money. In some cases it is not an insignificant amount of money. I mean it does vary by service. And—

Mrs. DAVIS. And we are roughly talking about?

Mr. HIGGINS. Amounts? Officer could go to \$120,000. Enlisted member could be in the neighborhood of \$20,000 if I am not mistaken. Depending on assumptions of what grade that it is offered.

And that will vary by service because there are different multipliers used in terms of the number of months of pay would be included. And that varies by service because the analysts looked at that fine tuning.

We would hope they are invested, yes. And to some degree they are going to be able to put it in the Thrift Savings Plan because many of these individuals are going to have room left in the contribution rate that the government allows in the Thrift Savings Plans so they can take some part of that continuation pay and put it in Thrift Savings.

Maybe not this year, but maybe next year as well and the year after that. So I mean that is our hope.

Mrs. DAVIS. Is the whole program impacted if they do not do that? I mean does it rest on that assumption?

Mr. HIGGINS. It does not. I think in the long run, you know, there—if, let's say for argument's sake, there is no investment of continuation pay, then obviously it will lay stream assets available to that information is, that service member is reduced.

We still believe that our benefits, again widely variable based on assumptions, we still believe that our program will produce better lay stream assets, or certainly as good as they have today.

General CHIARELLI. I think it is fair to say, though, that we did not assume they would invest it in TSP when calculating our charts. Our charts are based on the fact that they would get an

amount of money based on the service's needs both in rank and military occupation specialty. It would vary.

And that money, at least in the charts that we have showed you, for what this is worth at 20 years, are under the assumption they do not invest it. If they invest it in the TSP, it would only go up, I believe, how we calculate it.

Mr. BUYER. Mrs. Davis? For me as we were putting this together, early on when we talked about doing a match on a TSP we heard from the Chiefs. And the Navy and the Air Force were very anxious.

They were very nervous because they didn't want to create an off-ramp whereby the amount of money invested in the particular MOS's, whether it is a nuclear to pilots to technicians. You know if you do this they will—we have invested so much they will just off-ramp and go into the private sector.

And so this feature, this is an attractive retention feature that also we talk about what are some of the principles of your thinking and the methodology. It is flexibility and choice.

And this is a tremendous value. And it really—when somebody hits that 12-year mark they got some really fascinating decisions they get to make that they don't get to make today.

Admiral GIAMBASTIANI. I think if I could add also on this continuation pay. What is important is that we are trying to give the services and the Department of Defense—what we have recommended to Congress is to give them an opportunity, as you have heard from Mr. Higgins, to adjust the multiple.

But as a minimum it has got to be 2½ months of basic pay. It can go up or down depending on that grade military occupational specialty and the rest.

Number two, they could move it from 12 years to 13 years is what we are also suggesting. But our modeling shows that at the 12-year point right now that is the best thing.

Number three, just to make sure we are all clear, they can take this as a lump sum immediately and do whatever they want with it. Which is—and the modeling shows that this will help. That is why we call it continuation pay.

Mr. BUYER. Powerful retention incentive.

Admiral GIAMBASTIANI. Yes. It is very powerful. And it keeps the force profile where the services want to have it today.

Mr. CARNEY. But it is also critical that they have the robust financial education so they make the decisions with it. And that is a big chunk of one of our recommendations, certainly. And it is a big part of all of this. It ties together.

Mr. MALDON. Ranking Member Davis, I would also just like to add that without that investment of the continuation pay their net earnings, lifetime savings with our modeling is still to their advantage, net-net. There is a net positive in their lifetime earnings in the recommendation without that continuation pay.

Mrs. DAVIS. Thank you.

Dr. HECK. Mr. Knight, further questions?

Mr. KNIGHT. Thanks, Mr. Chair. Just a quick question.

What would the 20 percent say? What were their reasons for not liking the proposed program? Did they give any?

Mr. MALDON. Commissioner Higgins, you want to take a shot at that first?

Mr. BUYER. We do the same things you guys do.

Mr. HIGGINS. We are known as a paternalistic military force. We have very great interest in protecting the interest of our young service members. And I think it would be fair to say that we saw some of those feelings come forward in the survey.

And these are generally from people, more experienced people. People who had been in the force a lot longer. People that may not share some of the desire for choice of flexibility that is part of the mantra of a new generation that we want to recruit and retain. There was some of that clearly.

But it would be also fair to say, I think, that what people saw in the survey was very close to our final recommendation because we had pretty good ideas about the solutions that we felt were viable and had importance.

And the survey reflected that. And that is why you saw us speaking with such confidence that we could offer them the option to see, be visible and to make judgments on.

Admiral GIAMBASTIANI. I think part of the answer that Commissioner Higgins has given to you is from our verbal engagement with individuals, base visits, town halls, those types of things. As opposed to specifically in the survey.

In other words, you didn't prefer—you prefer the current retirement system why? I don't believe we asked that specific question on why do you prefer this over that. We just asked if you were—afforded these systems what would you opt for?

Mr. KNIGHT. Yes. I would just expect—you know in a prior life I was a financial adviser. And the more you talk to people and the more kind of information you gave them, not advice, the clearer they were. And the better choices they made.

And I just wonder if it got further down the survey and you said well what about this and you gave them a little bit more information.

You know when you are 19 and you are getting in the military you don't think that you are ever going to be 60. Or if you are joining as a career, you just want to serve and you just want to be in the military and be part of the mission.

So I don't know that that is the thinking process from everyone. And so I think the more it goes down I think more if this is adopted it will start to become part of the culture. And nobody will know any different.

Admiral GIAMBASTIANI. I think that is why this financial training that we are absolutely adamant on is such an important component of this.

You have heard us say it many times. You understand this from your experience. But when you are dealing with these young people you just have to keep working on it. And you got to do it in a smart and coherent fashion for them.

Mr. MALDON. Congressman, I want to provide you with a little more—we will do this for the record, if I might provide you with a little bit more information around your question on that 20 percent.

I would just add though, very quickly, a lot of it really depends on where you are at that point in time in your military career. And people that have been a long—been in it for a while, they are closer to the retirement point that took the survey, they are more likely to want to answer that question to say they like the current system better because that is the one that they are in and that is the one they are familiar with.

But we will provide you with more information for the record.

[The information referred to can be found in the Appendix on page 51.]

Mr. KNIGHT. I think part of it is familiarity, I do. Look, if 80 percent of the people like what I am doing, I am a happy guy, so.

I yield back.

Dr. HECK. Thanks.

Mr. Walz.

Mr. WALZ. In my district that is 51 percent or—that is the way it works.

Again I want to just clarify the point. I think the thoughtfulness you put into that, I am going to echo that again. I don't think it can be said enough. Because this is a tough lift. And the folks sitting right there know that and I understand. You know it as well as anybody.

I am appreciative of how you did it. I think this discussion on paternalistic is certainly true. It goes there.

The one thing I would say is you took averages and things like that. I caution us all to think about, this is all great unless you are retiring in January of 2009. It would have been some significant things that impacted you because of economic conditions in this country with the Thrift Savings Plan and the way it worked.

Now I know many people are saying, well that is the nature of things. Markets go up and down and whatever. I would make the argument that our commitment to these folks is different than just market winners and losers. These are folks that put their lives on the line. And so that defined benefit plan is certainly there.

I would ask for all my colleagues to keep in mind because we are going to get asked many questions. The question I would ask is Congress has both a defined benefit plan and the Thrift Savings Plan. You are asking us to choose between one or the other. Just a thought.

Those are things we are going to have to—and this getting there and how do we do all this is going to matter. Well, we will have the debate on this. It will matter on how our force looks at this.

Because my biggest concern on this is, again, how do we ensure—and you have thought about this deeply. First and foremost, how do we make sure that All-Volunteer Force is still there? How do we retain them?

And I want to be on the record. I think you brought up many intriguing things that are well thought out in going through. But I think if we ever divorce legislation and thoughtfulness from the politics and the will of those served we make a mistake. Because great ideas have died because of not ability to do that. So, just as a thought.

Mr. BUYER. Sergeant Major, in our examination where we felt that systems were running well we left it alone.

So you asked us is it possible to modernize the system. If so, where? Is it possible to be effective and find efficiencies? If so, where?

At the same time to be very responsive to a demographic for which you are recruiting from. And where are they today compared to when you took your oath as a young man?

They are in a different place today. And the way their peers and their contemporaries as they mature through life and how they are being rewarded differently than in the military. I mean it is different.

So how do we prepare for that force to recruit and for you to be able to retain into the future? And that is part of our package too.

Mr. WALZ. Well, it is a thoughtfulness. And I have to tell you I am grateful for my colleagues here who are taking this in the right spirit and thinking this thing through.

This is important work. It is going to matter. No less than the Chairman of the Joint Chiefs that it is absolutely critical to this nation's national security to get this right on all fronts. And I think you see we are taking that seriously.

Again, I can't thank you enough, and really look forward. We just kicked off is where it is. It is a long game. We got to figure it out. We got to get to the end. Thank you.

Dr. HECK. Ms. Speier.

Ms. SPEIER. To follow up on my colleague, Mr. Walz's comments, under your plan, if I understand it correctly, you are still going to have for new enlisted today—I mean after the law would be passed, they would still have a defined benefit plan. It would just be 80 percent instead of 100 percent. Correct?

Mr. MALDON. That is correct.

Ms. SPEIER [continuing]. 20 percent—

Mr. MALDON. Yes.

Ms. SPEIER [continuing]. At 20 years.

But you also have the benefit of a TSP that has got a Federal match that you didn't have before. And we should—I don't know if you have used this.

But this is a, I think, very artfully done chart that if hasn't been up should be up because it shows how in all likelihood the benefit could be actually greater than the current plan.

I have just two quick questions. And maybe I am somewhat impacted by having just seen the American Sniper. For those men and women who go into battle and do the unthinkable on our behalf, for short periods of time and then leave the military there really is nothing for them.

And I think when the American public thinks about our military and making sure that we give them what they deserve, they want to make sure the folks on the front lines were getting some form of support.

And the truth is, if you only serve 3, 4, 6 years, if you only do three, four, five tours of duty, by God, I mean to think that we have put them in that kind of position and then leave the military, there is really nothing for you.

Admiral GIAMBASTIANI. Well, I wouldn't—

Ms. SPEIER. Besides the VA.

Admiral GIAMBASTIANI. Yes.

Ms. SPEIER. But I mean in terms of compensation. And I don't know if you have thought about that at all. That wasn't part of your charge, but—

Admiral GIAMBASTIANI. No, it is part of our charge.

Mr. BUYER. We are in a place that is no different than where Congress was after World War II. And they stepped forward with the GI Bill.

Where we are today is not only do we do the GI Bill that is already there, but we also are doing more with regard to the war after next. And that is what this modernization of our package is. So what your comments are, you are in the exact same position I believe as Congress was in 1948 and 1952.

Mr. MALDON. Congresswoman, I would like to add, I am looking at this chart here though. And I think I would be remiss if I didn't mention we are redoing this chart because we are taking a look at the lifetime earnings.

And we are going to—and I think the result is going to be the same. But we will be redoing that chart. And we will make sure that you get the update to that as we do it.

Ms. SPEIER. Okay.

Mr. MALDON. Because we just re-look at assumptions and those kind of things that I think would be very important to make sure that that date is included.

Ms. SPEIER. So with my last 2 minutes, are there any areas that we haven't covered today that we should hone in on in terms of your entire proposal?

We tend to look at certain areas and we beat them to death. But we may not be looking at other areas that are also critical or important. So if there is anything else that we haven't really spent any time on and you would like to address, I would be happy to hear it.

Mr. MALDON. I will turn to my fellow commissioners and see if you have any comments to make. Go ahead. Commissioner Chiarelli wants to.

General CHIARELLI. I would really like to state the importance of the Readiness Command, not only from a medical standpoint but also from the standpoint of every single one of our recommendations touches readiness in some way.

The only way that I would disagree with Commissioner Buyer is it is a lot like World War II. But in my own service there were 8.5 million men and women who fought that battle for just over 4 years.

We have done it with less than 1 percent of the population and every one of them has been a volunteer. So you know if we want to maintain this force and do these kinds of things, we need to ensure that we are watching the readiness issues.

Admiral GIAMBASTIANI. I would like to echo that and just suggest one thing. In individual discussions with a number of members there are concerns about this creating another four-star command.

I would like to remind you of something just for a moment because everybody is worried about grade creep. And yes, you have two retired four-stars sitting here.

But what is important to remember about this is this was the toughest recommendation we came to as a Commission. We de-

bated this ad infinitum, frankly, for about a year on how to best help solve the combat medical readiness issue and to keep oversight.

It is not just a four-star command, but it is also on the Joint Staff the creation of a doctor who is not submerged underneath some other division head, who is in fact reporting directly to the Chairman of the Joint Chiefs on medical. So it is a combination.

I just want to remind you of one thing to think about. Today the United States Government has about 2.1 million civil servants. We have 8,000 SES's. That ratio comes out to be about 38 Senior Executive Service civilians for every 10,000 Federal employees.

In the United States military we have about 1.36 million Active Duty. We have 994 flag and general officers. That ratio is a tad under 7. So you have got 38 Senior Executive Service for every 10,000 Federal employees. And we have just under 7 for every 10,000.

My comment to you is if you are really worried about grade creep, I am not suggesting going after the civilian corps. I am just telling you, give me a break here. I think we are making a mistake.

Dr. HECK. Mrs. Davis.

Mrs. DAVIS. I might just add because we had actually a meeting yesterday around some of the stand-ups of multiple commands at times that perhaps were not appropriate.

So I think that is partly where some of those questions are coming from as well. And just being able to really explain why it is and justify, which I think members are going to be looking for.

General CHIARELLI. It is \$50 billion. It is a big hunk of money. And when you look at the VA portion, although you know that is a separate bucket, you are talking over \$100 million in health care. So it really does need someone to ensure that it is being done as efficiently and effectively as possible.

I would also add that the formulary issue is—you asked me another issue and I am going to keep pounding on it every time I come up here. This formulary issue is absolutely essential.

And I will tell you that piece of paper that came out on the 20th from the Veterans Administration has not fixed that issue. It has not fixed it. And we really, really need to rationalize those two formularies.

Dr. HECK. Now let me—I am going to follow up on that same line. So obviously so now we have DHA [Defense Health Agency], which has kind of assumed the role also of TMA [TRICARE Management Activity]. How do you see—what happens to the Defense Health Agency if we stand up a Joint Readiness Command and we do away with TRICARE?

Admiral GIAMBASTIANI. We are not doing away with TRICARE in its entirety. Remember, you are going to still have TRICARE for Life. And so you are going to need a much smaller administrative staff.

So that frankly very large TRICARE and Defense Health Agency, that is part of where the savings come from because there are significant reductions there. That is what happens to them.

We can give you more detail for the record on this.

[The information referred to can be found in the Appendix on page 51.]

Dr. HECK. Probably explains why Secretary Woodson is on my calendar next week.

Mr. BUYER. I want to go really—I want to go—yes. He is going to have less of a kingdom and he will be defending the muck.

Let me go real personal to you. So when you are in theater as a combat surgeon the picture that someone took, that radiograph, that picture that was taken.

Do you realize that when that patient was then on the air ambulance to Landstuhl, when he got off the bus, when he was carried off the bus at Landstuhl his medical record is on his chest, along with his x-ray.

And you say, Steve, why is that? In the era of the electronic health record? It is because there is no trust. You see that x-ray that was taken, the kind that supports hospital in Iraq for you is a different system than—that is located at the MTFs.

Because the Defense Health Agency, they are funded differently. They buy things differently. The acquisition is different. So when it comes to the combatant side of health care, it is owned by the services.

So this recommendation that General Chiarelli and Admiral Giambastiani have created this Readiness Command in the J10, it is to ensure that it becomes seamless and integrated. We have to stop this.

We also need acquisition reform. But that was outside our purview.

I will yield back, but you see what I mean? Come on, doc, we got to do better.

Dr. HECK. Well, votes are going to be at 2:30. I will ask if anybody has got any last alibis. Okay.

You know we have touched on a lot of important issues. But we haven't yet delved into a lot of issues. Like until we start talking about SBP [Survivor Benefit Plan] and DIC [Dependency and Indemnity Compensation] offset, talk about a third rail. Or if we start talking about some of the other issues that you have addressed.

I want to assure all the subcommittee members that we will continue to address every one of these issues in detail before we come to the point of trying to make a recommendation on the recommendations.

Again, I want to thank all the commissioners for your thoughtful work, for coming before us again. I appreciate the insights you have provided. Look forward to working with you as we slog through and defend the muck from the gargoyles.

Mr. MALDON. Thank you, Mr. Chairman.

Dr. HECK. There being no further business, the hearing is adjourned.

[Whereupon, at 2:28 p.m., the subcommittee was adjourned.]

A P P E N D I X

FEBRUARY 11, 2015

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

FEBRUARY 11, 2015

**Opening Remarks – Chairman Heck
Military Personnel Subcommittee Hearing**
**Final Recommendations of the Military Compensation and Retirement Modernization
Commission**
February 11, 2015

I want to welcome everyone to the first hearing of the Military Personnel Subcommittee on the fifteen recommendations to modernize the military compensation and retirement systems suggested by the Military Compensation and Retirement Modernization Commission.

We appreciate the Commission's diligent and comprehensive review of the military pay and benefits system and believe their thoughtful recommendations deserve our attention and careful study. We want to assure everyone that the Military Personnel Subcommittee will take every opportunity to thoroughly review and discuss them in the coming months. We are fully committed to improving the welfare and quality of life for both current members of our Armed Services and our veterans, while ensuring we keep our nation safe and secure.

Our purpose today, following last week's full committee hearing, is to begin the subcommittee's effort to understand the assumptions, rationale and details behind the commission's recommendations. A key consideration for our work is the continued viability of the All-Volunteer Force which has been well sustained by our current compensation system since its inception. Most importantly we must not break faith with our service members and undermine our efforts to recruit and retain the best and brightest in our Armed Forces.

Before I introduce our panel, let me offer Congresswoman Davis an opportunity to make her opening remarks.

Military Compensation and Retirement Modernization Commission
Testimony Before the
House Armed Services Committee
Military Personnel Subcommittee
February 11, 2015

Statement of:

The Honorable Alphonso Maldon, Jr., Chairman

The Honorable Larry L. Pressler

The Honorable Stephen E. Buyer

The Honorable Dov S. Zakheim

Mr. Michael R. Higgins

General Peter W. Chiarelli, United States Army (Ret.)

Admiral Edmund P. Giambastiani, Jr., United States Navy (Ret.)

The Honorable J. Robert Kerrey

The Honorable Christopher P. Carney

NOT FOR PUBLICATION UNTIL
RELEASED BY THE
HOUSE ARMED SERVICES COMMITTEE

Chairman Heck, Ranking Member Davis, distinguished members of the Subcommittee: My fellow Commissioners and I are honored to be here, and we thank you for the opportunity to testify today. We also wish to thank you for your support of the Commission throughout the last 18 months and for your unwavering commitment to and leadership in the protection of Service members' compensation and benefits.

As a Commission, we stand unanimous in our belief that the recommendations offered in this report strengthen the foundation of the All-Volunteer Force, ensure our national security, and truly honor those who Serve—and the families who support them—now and in the future. Our recommendations represent a holistic package of reforms that do not simply adjust levels of benefits, but modernize the structure of compensation programs for Service members. These recommendations sustain the All-Volunteer Force by maintaining or increasing the overall value of compensation and benefits for Service members and their families, and they provide needed options for Service personnel managers to design and manage a balanced force.

We would first like to address the concern that an all-male Commission does not have sufficient diversity to make recommendations on military compensation. As stated previously, the members of the Commission were appointed and had no input on the composition of the Commission. Nonetheless, the Commissioners immediately recognized the need to supplement our experience through selection of our senior staff. Our General Counsel and two of our three portfolio leads are women. One is a retired two-star admiral, one is a retired Lieutenant Colonel, and another is the spouse of a retired Army E-8, with exceptional family members. Beyond our senior staff, many of our diverse Commission staff members are current or former representatives of most key military and family demographics and are current or former beneficiaries of many of the very programs we explored. This internal diversity of insight and personal experience was deeply appreciated and, indeed, essential to our consideration of all relevant issues.

Retirement

The Commissioners recognize that an appropriate and truly beneficial retirement system is fundamental to keeping faith with our nation's heroes. Currently, only 17 percent of enlisted members and 49 percent of officers earn a military retirement. The Commission's blended retirement plan recommendation expands benefits to 75 percent of Service members, and protects recruiting and retention to maintain the Services' current force profiles. It also provides more flexibility for Service members, as well as for the Services that must field a balanced force. The Commission's recommendation also protects, and even improves, the assets of Service members who retire at 20 years of service (YOS), based on reasonable and conservative estimates.

For example, the Commission's model assumes that Service members contribute only 3 percent of their basic pay to Thrift Savings Plan (TSP), even though 75 percent of participants in the Federal Employees Retirement System contribute 5 percent or more of their pay to maximize Government matching contributions. It assumes investment returns of 7.3 percent, consistent with TSP returns since 1989 and lower than the average rate of return estimated by state pension funds. It assumes 2.3 percent annual retired pay cost of living adjustments, consistent with DoD actuarial assumptions. It further relies on discount rate assumptions calculated by our contractor support based on Service member behaviors. To maintain current force profiles, TSP contributions were not recommended beyond 20 YOS; however, the

consideration of matching contributions that continue beyond 20 YOS may be an area the Committee wishes to explore.

Key features of the blended retirement plan include the following:

- Grandfather retired pay for current Service members and retirees, while allowing Service members to opt in to the new blended retirement plan.
- Maintain the majority of the current defined benefit.
 - Vesting at 20 YOS for standard retirement.
 - Defined benefit multiplier of 2.0 (vs. the current 2.5 percent) to maintain 80 percent of the current defined benefit.
- Institute a defined contribution plan for all Service members through the Thrift Savings Plan.
 - Automatic enrollment of Service members to contribute 3 percent of basic pay.
 - Automatic Government contributions of 1 percent of Service members' basic pay.
 - Government matching of Service member contributions of up to 5 percent of basic pay from beginning of 3 YOS to 20 YOS.
 - Vesting at beginning of 3 YOS (2 years and 1 day).
 - Continuation pay at 12 YOS to provide mid-career retention incentives.
 - "Basic continuation pay" of 2.5 times monthly basic pay for active-duty Service members (0.5 of active-duty pay for Reserve Component (RC) members).
 - Additional continuation pay from Services as needed to maintain desired force profiles.
- Provide Service members more choice in how to structure defined benefit payments.
 - Choice to receive all or part of pre-Social Security age defined benefit annuities as lump-sum payments.
 - Full annuities resume at full Social Security receipt age to ensure steady income later in life.
- Provide Services additional career field flexibility.
 - Authority to propose adjustments to YOS to vest for defined benefit annuity for individual career fields.
 - One-year waiting period after YOS adjustment is proposed to the Congress.
 - Enables differing force profiles to resolve long-term manpower challenges.

Joint Readiness

The primary goal of the Commission's recommendations is to maintain the All-Volunteer Force. A critical element of this goal is a focus on sustaining or improving joint readiness. There are challenges to maintaining joint readiness capabilities during peacetime. For example, currently high levels of medical readiness could be enhanced if Military Treatment Facilities (MTFs) had access to a different mix of cases, yet DoD has limited means to affect MTF workload or access to trauma-care cases. The recommended Joint Readiness Command would provide essential high-level focus on readiness for the next conflict and provide a strong advocate to ensure appropriate readiness funding. Key elements of the Commission's recommendation include the following:

- Establish a Joint Readiness Command (JRC).
 - Functional unified command led by a four-star General/Flag Officer.
 - Includes a subordinate joint medical function.
 - Required structure and personnel may be realigned from current Joint Staff functions.

- Participates in annual planning, programming, budgeting, and execution process.
- Establish a Joint Staff Medical Readiness Directorate.
 - Led by a three-star military medical officer.
 - Current Joint Force Surgeon billet transitions to assume the increased authorities.
- Establish statutory requirement for DoD to maintain Essential Medical Capabilities (EMCs).
 - Limited number of critical medical capabilities that must be retained within the military.
 - Secretary of Defense approves, establishes policies related to, and reports to Congress annually on EMCs.
 - JRC identifies EMCs; establishes joint readiness requirements consistent with EMCs; monitors and reports on Services' adherence to EMC policies and standards; and monitors allocation of medical personnel to ensure maintenance of EMCs.
- Protect and improve transparency of medical programs funding.
 - Active Component (AC) family, retiree, and RC health care should be funded from the Services' Military Personnel accounts.
 - Medicare-Eligible Retiree Health Care Fund (MERHCF) should be expanded to cover health-care and pharmacy for non-Medicare-eligible retirees.
 - New trust fund for health care expenditures appropriated in the current year.
 - MTFs funded through a revolving fund using reimbursements for care delivered.
 - MTF operations that exceed reimbursement for care delivered to be funded from Services' operations and maintenance accounts as cost of readiness.

Health Benefits

The health benefit is essential for nearly all military constituencies. The current TRICARE program is beset by several structural problems that hinder its ability to provide the best health benefit to AC families, RC members, or retirees. It has weak health care networks because it reimburses providers at Medicare rates or lower. It limits access to care with a frustrating referral process. It has challenges adopting medical advancements or modern health care management practices in a timely manner. The Commission's recommendations expand choice, access, quality, and value of the health care benefit. Key features include the following:

- Continue to provide active-duty Service member health care through their units or MTFs to ensure Services can maintain control of medical readiness of the Force.
- Retain current eligibility for care at MTFs, pharmacy benefit, dental benefit, and TRICARE For Life for all beneficiaries.
- Establish a new DoD health program to offer a selection of commercial insurance plans.
 - Beneficiaries include active-duty families, RC members and families, non-Medicare-eligible retirees and families, survivors and certain former spouses.
 - AC families receive a new Basic Allowance for Health Care (BAHC) to fund insurance premiums and expected out-of-pocket costs.
 - BAHC based on the costs of median plans available in the family's location, plus average out-of-pocket costs.
 - Part of BAHC used to directly transfer the premium for the plan the family has selected to the respective insurance carrier.
 - Remainder of BAHC available to AC families to pay for copayments, deductibles, and coinsurance.

- Establish a program to assist AC families that struggle with high-cost chronic condition(s) until they reach catastrophic cap of their selected insurance plan.
- RC members can purchase a plan from the DoD program, at varying cost shares.
 - Reduce cost share for Selected Reserves to 25 percent to encourage RC health and dental readiness and streamline mobilization of RC personnel.
 - When mobilized, RC members receive BAHC for dependents; select a DoD plan or apply BAHC to current (civilian) plan.
 - Non-Medicare-eligible retirees' cost contributions remain lower than the average Federal civilian employee cost shares, but increase 1 percent annually over 15 years.
 - Leveraging its experience, Office of Personnel Management administers the program with DoD input and funding.
- Institute a program of financial education and health benefits counseling.

Survey

In an effort to gather input from key stakeholder groups, the Commission surveyed current and former Service members' preferences for possible changes to military compensation. This survey was designed to be statistically representative of key active, reserve, and retired subgroups. Some important aspects of this survey include the following:

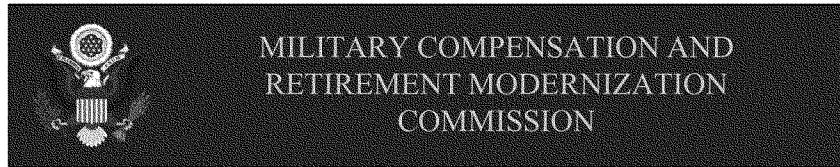
- More than 155,000 current and former Service members completed the survey.
- Results are statistically representative the overall populations and key substrata (95 percent confidence interval).
- Unlike other military surveys that measure satisfaction with current benefits and other aspects of service, the Commission's survey explored Service member preferences for alternatives to their compensation.
- Survey participants manipulated sliders (scaled 0 to 100) on a set of web-enabled interactive screens to express their preferences for alternative levels of a benefit's feature (e.g., preferences for alternative TSP contributions matched by DOD).
- Preference scores were standardized into measures of relative importance across all benefit features (24 items in the active force survey) to enable comparisons and rank ordering of benefit features.
- The system's analytical tools also calculated a measure of perceived value which identified how much of a basic pay raise would be required to match the perceived worth Service members assigned to alternative levels of a benefit feature (such as alternative TSP percent's matched by DOD).
- The survey analysis tools also calculated aggregate preference measures for alternative configurations of compensation (including retirement, health care, and quality of life benefit changes), providing insight into how compensation changes could alter Service member preferences for an overall pay and benefits package.
- Analysis of the survey results revealed considerable support across key Service member groups for the Commission's modernization recommendations.

- The survey results underscore the Commission's position that efforts to modernize military compensation must be undertaken in an integrated, holistic manner.
- The Commission considered the insights gained from this survey valuable, yet it was just one of several sources of data and analysis available to support its deliberations.
- In addition to the material on the survey included in the Commission's Final Report, a separate report on the survey, along with extensive data files on the results, are available on the Commission's web site (MCRMC.gov).

We offer one additional note as you review and contemplate these and the full complement of our recommendations. Our recommendations look beyond the immediate and incorporate a substantial consideration of potential second- and third-order effects. The implementation timelines in our report are a direct result of these considerations. We ask, therefore, that the members of the Subcommittee work to ensure the most effective possible implementation of any enacted recommendations.

For example, our recommendation related to DoD commissaries and exchanges has a multiyear implementation timeline. The Commissioners are concerned that DoD budget constraints may create pressure to accelerate the backend operational efficiencies recommended in our report. An inappropriate acceleration, however, may lead to unanticipated costs, implementation challenges, or even failed consolidation of the military resale system. We ask that you give such concerns your full consideration as you move forward in your review and implementation of any recommendations.

In closing, my fellow Commissioners and I again thank you for the opportunity to testify here today. It has been our honor and privilege to serve American Service members and their families as we have assessed the current compensation and retirement programs, deliberated the best paths to modernization, and offered our recommendations. We are confident that our recommendations will indeed serve our Service members in a positive, profound, and lasting way. We are pleased to answer any questions you have.



ALPHONSO MALDON, JR.
CHAIRMAN

Alphonso Maldon, Jr., is the Founder and President/CEO of Partnership Strategies Consulting. He is also a founding partner of the Major League's Washington Nationals Baseball Club, having led and managed a group of investors that developed and helped finance the bid to purchase the franchise. He was responsible for public relations, governmental affairs and community relations as the Nationals' Senior Vice President, External Affairs and also served as President of the Dream Foundation, the team's philanthropic arm.

Maldon served as the Assistant Secretary of Defense for Force Management and Policy from 1999 to 2001. In this role, he was responsible for policies, plans and programs for all military and civilian personnel management and oversaw the Department's commissaries/stores and Department of Defense Schools. Prior to that, he served as Deputy Assistant to the President and Director of the White House Military Office, responsible for Operations, Logistics and Communications and managing and directing a staff of over 2,200 employees. Maldon was appointed Special Assistant to the President for Legislative Affairs in 1993, responsible for providing policy-making and strategic advice to President Clinton.

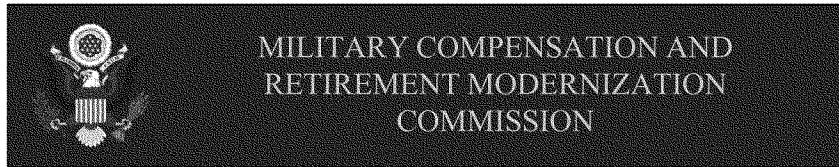
Maldon entered active duty service as a commissioned officer in the U.S. Army in 1972, with tours of duty in Europe, Southeast Asia, Hawaii and various other posts. He held positions including Executive Officer, Armed Forces Staff College, and Admissions and Public Liaison Officer at the United States Military Academy, West Point, NY. In addition, he served as a Field Artillery and Adjutant General Corps officer. He completed his military career as Deputy Director for Army Legislative Affairs in 1993 in the U.S. House of Representatives.

Maldon has also served as Senior Vice President and Senior Relationship Management Officer for Government Banking Services for PNC Financial Services Group, responsible for strategy, marketing and cultivating relationships with federal agencies. He previously was Executive Vice President with Fleet Boston Financial and Bank of America, overseeing such areas as global procurement, facilities planning and strategy, commercial real estate transactions and federal government banking. He opened and headed Fleet Boston Financial's Washington operation, generating more than \$60 million annually in new business.

He is an alumnus of the University of Oklahoma and Florida Agricultural & Mechanical University (FAMU). He is a graduate of various military schools and colleges including the Command and General Staff College, and The Armed Forces Staff College.

His awards and honors include the Distinguished Civilian Public Service Medal and the United States Congressional Award for Leadership and Patriotism, as well as military decorations such as the Legion of Merit and the Defense Meritorious Service Medal (with two Oak Leaf Clusters).





STEPHEN E. BUYER
COMMISSIONER

Stephen E. Buyer was a member of the United States House of Representatives, serving nine consecutive terms and representing Indiana's 4th (previously 5th) Congressional district from January 1993 to January 2011. Congressman Buyer's long tenure in the Congress, especially his service on the Committees on Veterans Affairs and Armed Services, along his many years of active and reserve military service, afford him considerable insight into the challenges facing service members, veterans and families.

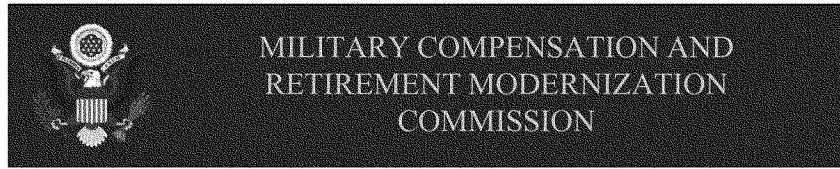
Congressman Buyer served as Chair of the Committee on Veterans Affairs for the 109th Congress, as well as the Ranking Minority Member for the 110th and 111th Congresses. Congressman Buyer also served on the House Armed Services Committee from 1993 to 2001, including as Chair of the Subcommittee on Military Personnel in the 105th and 106th Congresses. He founded and co-chaired the National Guard and Reserve Components Caucus. He created TRICARE For Life and authored the military's pharmacy redesign. His other Congressional assignments included service on the health and technology subcommittees of the Committee on Energy and Commerce from 2001 to 2010, where he assisted in creating Medicare Part D. He also served the House Committee on Judiciary from 1993 to 1999 and served as a House Impeachment Manager in the Trial of President Clinton.

Congressman Buyer, as an Army Reserve officer, has served four years on active duty, including a tour of duty in Iraq during the first Gulf War (1990-91) as an Operational Law Judge Advocate, providing legal counsel to commanders and interrogating Iraqi POW's. After 30 years of credible service, he retired in the rank of Colonel in the U.S. Army Reserve Judge Advocate General Corps.

Prior to his tenure in the United States Congress, Congressman Buyer served as a Special Assistant United States Attorney, served as an Indiana state Deputy Attorney General, and engaged in a private law practice. After retiring from the Congress in 2011, Congressman Buyer created his own firm called the Steve Buyer Group, LLC.

Congressman Buyer is a distinguished military graduate of The Citadel in 1980 with a B.S. degree, and received his J.D. from Valparaiso University School of Law, Valparaiso, Indiana in 1984. He is a member of the Indiana and Virginia Bar.





MICHAEL R. HIGGINS
COMMISSIONER

Michael R. Higgins served as a Professional Staff Member of the Committee on Armed Services in the U.S. House of Representatives from 1990 through 2013. During that time, he served seven committee chairmen and eight subcommittee Chairmen. As such, he is a senior policy and programmatic authority on all aspects of military human resources policy and law across the military departments.

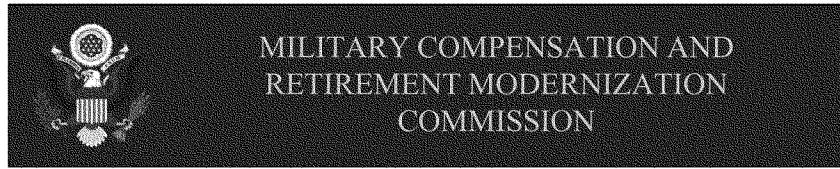
In particular, Mr. Higgins served on the Subcommittee on Military Personnel from 1995 to 2013, as well as from 1990 to 1993. In this role, he advised Congressional leaders on a wide range of personnel issues, including force structure, recruiting and retention, military personnel policy, compensation, military retirement, health care, childcare, morale, welfare and recreation programs, gays and lesbians in the military, and military resale programs. During 1994, he served on the Subcommittee on Readiness, focusing on issues such as dependent education programs, operations and maintenance training and base operations accounts.

During his tenure at Congress, Mr. Higgins conducted oversight of Department of Defense programs and provided results, background information, program budget assessments, and administrative support to Members of Congress regarding issues pertaining to military personnel policy, compensation, morale, welfare and recreation programs, and other quality of life and benefit programs. He developed related policy guidance and legislation for approval by the committee and adoption by the House of Representatives. Mr. Higgins also served as a military human resources information asset for Members of Congress and their staffs and the leadership offices of the House of Representatives.

Mr. Higgins served as a career personnel officer in the Air Force for 20 years, retiring as a Lieutenant Colonel in May 1990. His assignments included a variety of unit personnel positions, the Military Personnel Center, the Office of the Secretary of the Air Force, and as a unit commander.

Mr. Higgins was born in Long Branch, New Jersey, received a bachelor's degree from Davis and Elkins College, and earned a master's degree in business management from Troy State University.





PETER W. CHIARELLI
COMMISSIONER

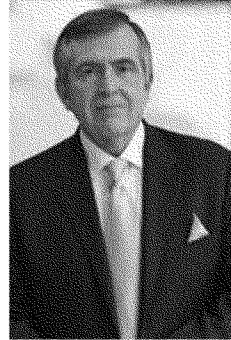
General Peter W. Chiarelli served as the 32nd Vice Chief of Staff of the U.S. Army from August, 2008 through January, 2012. In this capacity, he was the second-highest-ranking officer on active duty in the Department of the Army. He also represented the Army at the Office of the Secretary of Defense in areas relating to Army capabilities, requirements, policy, plans, programs, and Joint forces capabilities. He retired from the U.S. Army on January 31, 2012 after nearly 40 years of service.

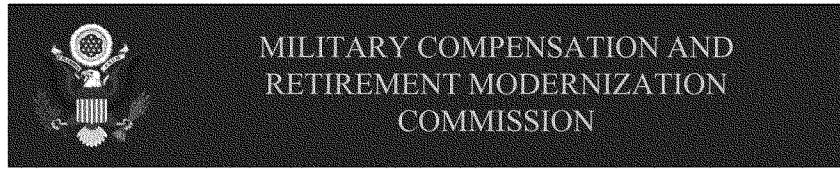
In his previous assignments, he was the Senior Military Assistant to the Secretary of Defense from March 2007 to August 2008. His principal staff assignments have been as the Operations Officer, 1st Cavalry Division at Fort Hood, Texas; Executive Assistant and later Executive Officer to the Supreme Allied Commander, Commander United States European Command at SHAPE Headquarters, Mons, Belgium; as the Director of Operations, Readiness and Mobilization, at Headquarters, Department of the Army.

He commanded a motorized infantry battalion at Fort Lewis, Washington; an armor brigade at Fort Lewis, Washington; served as the Assistant Division Commander for Support in the 1st Cavalry Division at Fort Hood, Texas; commanded the 1st Cavalry Division at Fort Hood, Texas and in Iraq during Operation Iraqi Freedom II; and commanded Multi-National Corps-Iraq.

He hails from Seattle, Washington and is a Distinguished Military Graduate of Seattle University. General Chiarelli was commissioned a second lieutenant of Armor in September 1972. Throughout his career he has served in Army units in the United States, Germany and Belgium. He has commanded at every level from platoon to corps.

General Chiarelli holds a Bachelor of Science Degree in Political Science from Seattle University, a Masters of Public Administration from the University of Washington, and a Masters of Arts in National Security and Strategy from Salve Regina University.





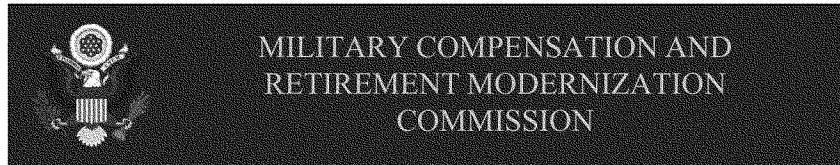
EDMUND P. GIAMBASTIANI, JR.
COMMISSIONER

Admiral Giambastiani served as the seventh Vice Chairman of the Joint Chiefs of Staff from August, 2005 through July, 2007. In this capacity, he was a member of the Joint Chiefs of Staff and the Nation's second highest ranking military officer. As Vice Chairman, Admiral Giambastiani chaired the Joint Requirements Oversight Council, co-chaired the Defense Acquisition Board, and served as a member of the National Security Council Deputies Committee and the Nuclear Weapons Council. In addition, he worked with Deputy Secretary of Defense as Co-Chair of the Deputies Advisory Working Group, which oversaw implementation of the 2006 Quadrennial Defense Review and other high level Departmental business issues.

Admiral Giambastiani's operational assignments included the USS PUFFER (SSN 652), FRANCIS SCOTT KEY (SSBN 657) (BLUE), and the USS RICHARD B. RUSSELL (SSN 687), where the crew was awarded three consecutive Battle Efficiency "E"s, three Navy Unit Commendations, and two Fleet Commander Silver Anchors for excellence in enlisted retention. He led Submarine Development Squadron Twelve, an operational submarine squadron that also serves as the Navy's Warfare Center of Excellence for submarine doctrine and tactics. He served as the first director of strategy and concepts at the Naval Doctrine Command, as Commander, Atlantic Fleet Submarine Force; Commander, Submarines Allied Command Atlantic; and Commander, Anti-Submarine and Reconnaissance Forces Atlantic. Other assignments included duties as an enlisted program manager at the Navy Recruiting Command Headquarters, Washington, DC, in the early days of the all volunteer force; Special Assistant to the Deputy Director for Intelligence, Central Intelligence Agency; and, a fellowship with the Chief of Naval Operations' Strategic Studies Group. As a flag officer, he served as the Deputy Chief of Staff for Resources, Warfare Requirements and Assessments for the Commander, U.S. Pacific Fleet; Director of Submarine Warfare for the Chief of Naval Operations; Deputy Chief of Naval Operations for Resources, Requirements, and Assessments; and as the Senior Military Assistant to the Secretary of Defense. His previous assignment was as NATO's first Supreme Allied Commander Transformation and as Commander, United States Joint Forces Command, where he led the transformation of NATO and U.S. military forces, capabilities and doctrines and the introduction of new technologies.



Following his retirement, Admiral Giambastiani was a member of the guiding coalition of the Project on National Security Reform, which made recommendations for transforming the U.S. national security system. He has also been the Chairman of Alenia North America and a trustee of several organizations, including Boeing, Mercury Defense Systems, Monster Worldwide, Rochester Municipal, and several Oppenheimer mutual funds. He has been a trustee of the U.S. Naval Academy Foundation and MITRE Corporation, as well as an advisory board member of the Massachusetts Institute of Technology Lincoln Laboratory and the Maxwell School of Citizenship and Public Affairs of Syracuse University.



CHRISTOPHER P. CARNEY
COMMISSIONER

Christopher Carney was a Member of the United States Congress for two terms. During his tenure in Congress, he served as a member of the Homeland Security Committee and as the Chairman of the Management, Investigations, and Oversight Subcommittee. In that capacity, he was able to review operations, plans, and the future direction of the Department of Homeland Security (DHS) and had a direct role in guiding and developing the first Quadrennial Homeland Security Review.

Additionally, as the second-ranking member of the Subcommittee on Intelligence, Information Sharing, and Terrorism Risk Assessment, Congressman Carney worked with DHS and the National Counterterrorism Center to develop policies pertaining to both international and domestic terrorism. He was instrumental in helping DHS create and sustain Regional Fusion Centers to help state and local law enforcement officials have a more active role in homeland security. Congressman Carney was also a member of the Transportation and Infrastructure Committee, serving on the Subcommittee on Economic Development, Public Buildings, and Emergency Management, as well as the Subcommittee on Highways and Transit, and the Subcommittee on Railroads, Pipelines, and Hazardous Materials.



Commissioned as an Ensign in the United States Navy Reserve in 1995, Congressman Carney has served as an intelligence officer for over 15 years. Currently, holding the rank of Commander, he is a combat Mission Operation Commander (MOC) for the MQ-1 Predator, the MQ-9 Reaper, and RQ-4 Global Hawk ISR platforms. He has earned many personal awards including the Defense Meritorious Service Medal, three Joint Service Achievement Medals, and the Navy Achievement Medal.

Prior to running for Congress, he worked at the Pentagon on strategic analysis of global terrorist threats, providing Red Cell alternative analyses of threats posed by al-Qaida and its affiliated groups. He ran DoD's Policy Counterterrorism Evaluation Group (PCTEG), was part of the Abu Musab Zarqawi working group at the White House, and was the "Special Projects" intelligence officer for two tours during Operation Southern Watch working closely with the J2 and General Victor "Gene" Renuart. In that time on Southern Watch he also worked very closely with members of the British Army and Air Force on low-visibility, high-impact intelligence sorties.

Congressman Carney was also a tenured professor of political science specializing in international relations at Penn State University, where he wrote, published, and presented dozens of academic papers pertaining to international political economy and power relationships. With extensive expertise in security issues and international relations, the Congressman understands the close link between reducing global demand for oil and maintaining international security. He is also keenly aware of the need to bring fresh water supplies across the globe to avoid resource-based wars as well as for humanitarian purposes.

Congressman Carney earned his BSS in U.S. Diplomatic History and Environmental Science from Cornell College, a Master's degree from the University of Wyoming in International Studies, and his Ph.D. in Political Science from the University of Nebraska-Lincoln.

**WITNESS RESPONSES TO QUESTIONS ASKED DURING
THE HEARING**

FEBRUARY 11, 2015

RESPONSE TO QUESTIONS SUBMITTED BY MR. WALZ

Mr. MALDON. The Commission's mandate was to conduct a review of all compensation systems and recommend a holistic set of compensation reforms. As such, the Commission's recommendations are designed to work together, and with other existing compensation programs, to maintain recruiting, retention, and the quality of life of Service members and their families.

The Commission's retirement and GI Bill recommendations, for example, are aligned to provide strong midcareer retention incentives. The GI Bill recommendation would allow Post 9-11 GI Bill benefits to be transferred to dependents after 10 years of service (YOS), with a commitment of 2 additional YOS. Then at 12 YOS, the Commission's retirement recommendation includes continuation pay that would include a commitment of 4 additional YOS. Thereafter, the defined benefit annuity would provide incentive for people to remain in service until 20 YOS, much as it does today.

Another example of how the recommendations are integrated is evident in the Commission's health care recommendations. The recommendation for a Joint Readiness Command would provide DOD with strong tools with which to attract new workload into Military Treatment Facilities, thereby strengthening the readiness of the medical force. The Commission's TRICARE Choice recommendation, in which Reserve Component members, retirees, and family members would choose from a menu of commercial health insurance plans, supports the Commission's readiness recommendations by ensuring that Military Treatment Facilities have the proper business practices (e.g., billing system, access priority lists, etc.) to support the new readiness workload.

The Commission's financial literacy recommendation provides critical support to ensure the success of the other recommendations as well. The retirement recommendation provides incentives for Service members to save and invest early in life, and the financial literacy recommendation would provide knowledge to support investing prudently. Similarly, financial literacy training would ensure that Service members make informed decisions in choosing the right health care options for their families within TRICARE Choice. [See page 11.]

RESPONSE TO QUESTIONS SUBMITTED BY MR. KNIGHT

Mr. MALDON. The Commission's survey did not ask why Service members prefer certain benefits to others. There is, however, some evidence that those who prefer the current benefits package are more senior in rank. For example, senior officers (O4-O6) and senior enlisted (E5-E7) prefer the current retirement plan by a margin of approximately 60:40. In contrast, junior enlisted (E1-E4) expressed preference for the recommended blended retirement plan by a ratio of 60:40. [See page 26.]

RESPONSE TO QUESTIONS SUBMITTED BY DR. HECK

Mr. MALDON. TRICARE would not be discontinued in its entirety. For example, active-duty Service members would continue to receive care through the Military Health System, TRICARE for Life would continue to serve Medicare-eligible retirees, and the pharmacy benefit would remain in place. If the Joint Readiness Command were created and TRICARE Choice implemented, the role and responsibilities of the Defense Health Agency (DHA) would change. DHA responsibilities would include the following:

- Administer the remaining elements of the TRICARE program and contract with third-party administrators to coordinate care and claims processing associated with active-duty Service members, TRICARE for Life, and the pharmacy program.
- Provide recommendations and data to the Office of Personnel Management (OPM) to assist in the coordination of a health insurance program that meets the unique needs of DOD beneficiaries and military medical readiness.

- Provide information, education, and benefits counseling to TRICARE Choice users.
- Manage the emergency fund to assist with catastrophic and chronic conditions experienced by active-duty families.
- Administer the 10 current and any future MHS-wide shared services (the current shared services include Information Technology, Contracting, Facility Planning, Medical Logistics, Pharmacy, Public Health, TRICARE Health Benefit, Budgeting & Resource Management, Education & Training, and Research & Development).

Some of the functions DHA performs today would be redistributed. Under TRICARE Choice, OPM would be responsible for actions such as negotiating and awarding contracts with health insurance carriers, dispersing payments to insurance carriers, and auditing insurance carriers' operations. The insurance carriers participating in TRICARE Choice would be responsible for actions such as coordination of benefits to plan enrollees; payment and adjudication of claims; and publication and distribution of health insurance plan brochures, identification cards, and other related documents to plan enrollees. The Joint Readiness Command would need to revisit DHA's current role as a Combat Support Agency, as well as that of the Readiness Division under DHA's Healthcare Operations Directorate. [See page 29.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

FEBRUARY 11, 2015

QUESTIONS SUBMITTED BY MR. KLINE

Mr. KLINE. The Commission recommends placing the services in charge of budgeting for service members' needs for Basic Allowance for Health Care and retirement (continuation pay). What is your assessment of the ability of each service to take on this task? How would this added requirement on the services take them away from other duties? Did you speak to the services on this issue during your review?

Mr. MALDON. The Commission recommended the Basic Allowance for Health Care (BAHC) be calculated based on a formula established in law. This statutory formula would be based on the median health plan Active Component families select in a geographic location in the prior year plus the average amount of out-of-pocket costs (copayments, coinsurance, and deductibles) in that location in the prior year. The Defense Finance and Accounting Services would be responsible for dispersing BAHC, not the individual military Services. The military Services would include in their annual Military Personnel budget an amount necessary to cover the costs of beneficiary health care, including the BAHC. The Office of the Secretary of Defense would provide to the Services most of the information necessary to determine the Services' budget requirements for beneficiary care. During the development of the recommendations the Commission staff met regularly with representatives of the Surgeons Generals' staffs to discuss possible financial requirements of the recommendation. The Commission does not expect that budgeting for the health benefit provided to beneficiaries would be beyond the Services' capability or would impede their other duties.

The Commission recommended basic continuation pay be determined by each member's current pay at 12 years of service. Any special continuation pay used to retain Service members in key specialty areas would be handled similarly to current retention bonuses. Commission and staff held discussions with personnel experts in all of the Services as well as the respective Assistant Secretaries for Manpower and Reserve Affairs for the Army, Navy, and Air Force, and the Assistant Deputy Commandant for Manpower and Reserve Affairs for the Marine Corps, before it made its recommendations. Under the current system, the Services have the analytical and staff capability to determine bonuses and special pays required to attain desired officer and enlisted retention levels by skill. These bonuses and special pays are constantly being adjusted to adapt to changing requirements and retention conditions. The Commission recommendations would require some further adjustments to these bonuses and special pays, but not beyond the capabilities that currently exist.

Mr. KLINE. How do your recommendations ensure family members and retirees are not hesitant to seek medical care for the fear they might spend their entire Basic Allowance for Health Care before the end of each month?

Mr. MALDON. The Commission's recommendation balances two factors: the need to provide high-quality health benefits, particularly for active-duty family members (ADFs), and the desire to incentivize more appropriate and efficient health care utilization. The Commission's recommendation also included several features to help protect ADFs from higher costs and subsequent risk, including BAHC, a fund for those with catastrophic and chronic health care needs, and financial literacy training regarding health care. BAHC would provide incentive for appropriate utilization of health care, while ensuring ADF's health care expenses remain generally cost neutral. BAHC would be calculated based on a formula established in law. This statutory formula would be based on the median health plan active-duty families select in a geographic location in the prior year plus the average amount of out-of-pocket costs (copayments, coinsurance, and deductibles) for ADFs in that location in the prior year. Basic Allowance for Health Care (BAHC) would be provided only to active-duty Service member with dependents; BAHC is not provided to retirees or their dependents.

The Defense Finance and Accounting Services (DFAS) would transfer the premium portion of BAHC to the Office of Personnel Management for purchasing the insurance plans that Service members select. This procedure would ensure that ADFs purchase a health insurance plan despite possible competing priorities within their household budgets. DFAS would deposit directly into the Service members'

pay only the portion of BAHC dedicated to cover out-of-pocket expenses (e.g. copayments).

The Commission has also recommended an assistance program to provide emergency funding to ADFM who struggle with catastrophic or chronic health care needs. This catastrophic and chronic health care assistance fund would mitigate the risk of high-cost health care events for ADFMs. Active-duty families would apply for funding from this DOD program to cover out-of-pocket expenses that substantially exceed the portion of their BAHC allotted for out-of-pocket expenses but are less than their health plan's catastrophic cap. After ADFMs reach their plan's catastrophic cap, they are no longer required to pay out-of-pocket costs. The Commission recommends that an annual total of \$50 million should be budgeted for this catastrophic and chronic condition assistance fund.

Additionally, the Commission has recommended providing Service members extensive financial literacy training related to health care. By helping Service members understand their families' coverage options and how to manage their families' health care expenses, they should be well prepared to be proactive in the use of health care resources, know when it is appropriate to seek care, and feel confident they would have the resources needed to fund their families' care. For example, within the range of health plans offered, Service members would have the opportunity to choose the plan that best fits their individual family's situation. A member with several young children might choose a plan that has a higher premium, but features low deductibles, copayments, and coinsurance, anticipating that the family may have frequent preventative services would better manage the care ADFMs receive, lower utilization when appropriate, and limit unnecessary out-of-pocket costs by preemptively addressing health care needs and reducing avoidable emergency room and urgent care visits.

Mr. KLINE. Your proposal requires retirees to eventually pay out-of-pocket for 20% of all health care costs. Why do you recommend that retirees pay 20% of health care costs?

Mr. MALDON. Currently retirees pay cost shares for their health care. Their cost contributions would gradually increase over many years but, as recognition of their military service, remain significantly lower than the average Federal civilian premium employee cost share (28%) and lower than the total cost share when TRICARE was established (27%).

Mr. KLINE. How do we ensure the Basic Allowance for Health Care benefit covers health care costs for the Select Reserve and National Guard under the current TRICARE Reserve Select system, so service members come to drill medically ready, and we avoid the problems of the past where the military bore the cost of getting them medically ready?

Mr. MALDON. Reserve Component (RC) members would receive Basic Allowance for Health Care (BAHC) for their families only when they are called to active-duty for a period of more than 30 days. RC members would be permitted to use BAHC to either buy a TRICARE Choice plan or apply it to their civilian health plan, maximizing continuity of care.

Members of the Selected Reserve are currently eligible for TRICARE Reserve Select at a 28 percent premium cost share. TRICARE Choice reduces their premium cost share to 25 percent. Under TRICARE Choice, all RC members would have access to health plans with partial dental coverage, which would aid those RC members who do not choose to purchase dental coverage under the TRICARE Dental Program. Additionally under TRICARE Choice, RC members would have access to vision coverage not available currently under TRICARE. Healthy dental and vision status are both concerns for medical readiness of the Total Force.

Mr. KLINE. How would the TRICARE changes affect the most critically injured and wounded who medically retire under the current TRICARE Prime structure, which offers a benefit that covers most of their care? Would a service member's Basic Allowance for Health Care shift costs to them or would they still continue to receive a benefit to cover all of their care?

Mr. MALDON. Basic Allowance for Health Care (BAHC) would not pay for health care of active-duty Service members themselves, but rather for their family members. Retirees would not receive BAHC. Service members who medically retire and are placed on either the temporary disabled retirement list or the permanent disability retirement list receive care as a retiree from the Veterans' Administration health care system and would continue to do so after implementation of the Commission's health care recommendation. In addition to receiving health care from the VA, medically retired Service members who are not Medicare eligible would have the option to purchase a TRICARE Choice policy. Upon becoming eligible for Medicare, they would have access to TRICARE for Life.

Mr. KLINE. What is the rationale behind the \$50M catastrophic event emergency fund? What are the qualifying criteria? How does your recommendation address the fund becoming insolvent?

Mr. MALDON. The rationale behind the catastrophic and chronic health care assistance fund is to provide protection against the risk of very high out-of-pocket costs for active-duty family members (ADFs) that are less than the catastrophic cap of the selected TRICARE Choice plan.

To be eligible for assistance under this program, an active-duty Service member must have a dependent with a catastrophic or chronic health care need and must incur medical expenses in connection with the condition that exceed the portion of BAHC allotted for out-of-pocket expenses. The Secretary of Defense would establish policy on how families would apply for this assistance, how the Department would determine the amount of assistance to be provided to each family, and the method by which the Department would distribute such assistance.

The Commission recommended an annual total of \$50 million be budgeted for the fund by estimating the cost of covering all ADFM households that have costs near the catastrophic caps of the plans in TRICARE Choice. DOD would have the ability to budget additional funds if \$50M is found to be insufficient for covering out-of-pocket costs for catastrophic and chronic conditions, as it does today for TRICARE costs.

Mr. KLINE. Because service members after 10 years of service are well positioned to leave military service and take their TSP account to a civilian 401(k) plan, how do you anticipate that changes in the current retirement system would affect retention goals for senior staff noncommissioned officers and field grade officers?

Mr. MALDON. The Commission's recommendations are expected to maintain retention across the force profile, including for senior staff and noncommissioned officers and field grade officers. These findings are based in part on RAND's Corporation's Dynamic Retention Model analysis, which indicates reducing the pension multiplier from 2.5 percent to 2.0 percent, while adding TSP, with matching funds, and continuation pay, would not create an incentive to leave (see page 29 of the Commission's Final Report). The recommendations also work collectively to provide mid-career retention incentives that would help meet retention goals as follows:

- Providing Post-9/11 GI Bill transferability at 10 years of service (YOS), with 2 additional years of service, would enable the Services to increase retention to the critical 12-year point in a military career.
- Awarding continuation pay at 12 years of service (YOS), with an additional commitment of 4 YOS, would bring Service members to the 16-year point, at which the draw of the defined benefit (DB) encourages retention.
- Maintaining the majority of the DB retirement plan, would encourage Service members to stay 20 years or more.
- Flexibility in special and incentive pays, including continuation pay, would provide additional opportunities for retention incentives in cases where those listed above are not sufficient to retain key personnel.

Mr. KLINE. What is the rationale behind the amount of continuation pay? Is continuation pay enough of an incentive to meet retention needs for a high quality force? How does continuation pay interact with other special pay and bonuses to keep high demand specialties in the service?

Mr. MALDON. Continuation pay shown in Table 2 on page 30 of the Commission's Final Report was calculated by RAND's Dynamic Retention Model as the amount necessary to optimally maintain the current force profiles by service and component. Because this amount of continuation pay maintains the force profiles, it is expected to be sufficient to meet retention needs for a high-quality force. The recommendation also provides flexibility, so the Services can adapt to changing conditions and requirements. The addition of continuation pay would not affect other special pay and bonuses other than to add another retention tool for Services to use.

Mr. KLINE. When formulating your recommendations, did you take into account how perceived inequality among service members in their benefits would affect the morale of the All-Volunteer Force? How can you assure future service members that their retirement benefit will be worth as much to them as it is to service members today?

Mr. MALDON. The current retirement system creates inequality by precluding a majority of Service members from receiving any Government-sponsored retirement funds. Under the proposed blended retirement system, a greater number of Service members would receive Government-sponsored retirement assets. The Commission found that the value of the retirement system to Service members would likely be increased, rather than reduced, with the proposed blended retirement plan. These changes are anticipated to have a positive effect on morale. Based on RAND's Dynamic Retention Model projections, the proposed retirement plan would allow the

Services to maintain nearly identical steady-state force profiles, providing another indication that morale and perceived value of the retirement system will remain strong.

For example, an E7 is projected to have Government-sponsored lifetime earnings that are \$440,452 greater under the blended retirement system than under the current retirement system. This assumes the Service member contributes 3 percent of his or her basic pay to TSP, Government TSP contributions are 4 percent of basic pay (1% plus matching), and that TSP investments grow at 7.3 percent annually. Moreover, these are conservative estimates, since the 75 percent of participants in the Federal Employees Retirement System (FERS) contribute 5 percent of their base pay to maximize matching contributions and both historical and projected investment returns of state pension systems exceed 7.3 percent. If Service members contribute more to TSP or investment returns are higher, their lifetime earnings will increase by more than this baseline projection.

Mr. KLINE. Reservists may have trouble finding health care options in rural areas. How does your proposal ensure protection for rural areas or areas with lesser choices of plans? Is there a fallback option for these members if choices aren't available or affordable?

Mr. MALDON. Network inadequacy in rural areas exists today under the current TRICARE program. When Reserve Component (RC) members activate, their family members are eligible for health care coverage under TRICARE. If the family transitions to TRICARE, it risks the loss of continuity of care if the family's existing healthcare providers do not accept TRICARE. The limitations of the TRICARE networks are detailed in the Commission's Final Report. It can be particularly difficult to find providers in TRICARE networks in rural areas and areas where there is a minimal Military Health Service presence.

It is anticipated that in TRICARE Choice RC members would have the opportunity to choose from an array of local and national commercial health insurance plans. Rather than relying on TRICARE's provider networks, which are limited in areas away from troop concentrations, RC members would have access to commercial insurance carriers' networks, which are specifically designed for the local area in which RC members live. Activated RC members would receive a Basic Allowance for Health Care (BAHC), which they could use to pay for a TRICARE Choice plan for their families or could use to pay for their civilian insurance, thus alleviating the need to change plans and providers when an RC member is activated.

QUESTIONS SUBMITTED BY MR. MacARTHUR

Mr. MACARTHUR. In relationship to the TRICARE Program, your Final Report stated that "according to beneficiaries, timely and convenient access to care is a critical element of high quality properly functioning health care benefit, yet many TRICARE users expressed frustration with this element." Concurrently, TRICARE beneficiary access to prescription drugs through local pharmacies has been steadily decreasing over the last few years, and starting in October of this year TRICARE beneficiaries will only be able to get certain medications through the mail or from a military treatment facility. Moreover, many beneficiaries prefer to use their local pharmacy and need the face-to-face encounter with a pharmacist, or may not live close to a military treatment facility. With all of this in mind, do you believe the Department should instead be looking at ways to maintain beneficiary access to their local pharmacy, so that beneficiaries can access the health care system that best meets their needs?

Mr. MALDON. The Commission recommended DOD's pharmacy benefit remain in place but proposed some important adjustments. DOD would manage the pharmacy program and continue to use the DOD formulary and Federal Supply Schedule pricing. In keeping with the Commission's objectives to increase choice, access, and flexibility in health care, beneficiaries using TRICARE Choice, as well as Medicare-eligible retirees using TRICARE for Life, would obtain medications from retail, mail-order, and MTF settings. DOD would retain the authority to contract with a third-party administrator to perform functions such as managing the retail pharmacy network, distributing mail-order medications, and processing claims. The Commission recommends that such contracts require a pharmacy benefits manager to integrate pharmaceutical treatment with health care and to implement robust medication therapy management (MTM), including the integration of MTM activities at retail pharmacies.

Mr. MACARTHUR. In relation to the TRICARE Program, your Final Report recommends that the Department should implement a robust medication therapy management (MTM) program. Pharmacist-provided MTM has been shown to improve

patient health, while at the same time reducing costs, so increasing access to these services makes sense. Retail community pharmacies have been at the forefront of providing MTM services. With this in mind, don't you agree that the Department should work to implement a robust MTM program that utilizes retail pharmacies?

Mr. MALDON. The Commission recommended all eligible beneficiaries, including Medicare-eligible retirees using TRICARE for Life, obtain medications from retail, mail-order, and MTF settings. DOD should retain the authority to contract with a third-party administrator to perform functions such as managing the retail pharmacy network, distributing mail-order medications, and processing claims. These contracts would require the pharmacy benefits manager to integrate pharmaceutical treatment with health care and to implement robust medication therapy management (MTM), including the integration and MTM activities at retail pharmacies.

QUESTIONS SUBMITTED BY MR. JONES

Mr. JONES. In the retirement example that is used to illustrate the current versus the proposed retirement system, it is of a E-7 who retired at age 38. And if he/she lived until 85 his retirement under the current system is approximately 202K. My staff looked this up using a DOD retirement calculator and came up with a very different number. Our number was about \$2.1M and that was if the service member lived until age 78. Can you please explain the large discrepancy? Also, can you explain the personal discount rate?

Mr. MALDON. The retirement example in the report is based on the present value of the retired pay, which accounts for the time value of money (i.e., that a dollar received in the future is worth less than a dollar received today). The DOD calculator estimates the cumulative retirement pay flow (of the current Defined Benefit Plan) from year of retirement out to 40 years from retirement and includes a cost of living adjustment (COLA). It does not calculate the personal discount rate.

The time value of money recognizes that money in hand today is more valuable than money in the future because money can be invested and earn positive returns. Personal discount rates expand this general concept to include people's risk tolerances and patience for spending. People who are risk averse or impatient for spending have higher personal discount rates, implying they strongly prefer money today relative to money in the future. The present value example in the Commission's final report reduces the value of future defined benefit payments by the personal discount rates calculated from RAND's dynamic retention model.

Conducting the same analysis of lifetime retirement earnings without discounting shows using conservative estimates, the proposed retirement system generates higher lifetime earnings than the current retirement system:

	E-7 with 20 YOS	0-5 with 20 YOS
Government-Sponsored Lifetime Earnings		
Current Defined Benefit	\$2,056,239	\$3,391,483
Blended Plan		
Proposed Defined Benefit	\$1,644,992	\$2,713,186
Continuation Pay (Statutory Basic)	\$7,321	\$14,008
Continuation Pay (Discretionary Force Management)	\$2,548	\$64,435
TSP Withdrawals (Age 60-85)	\$276,329	\$478,808
TSP Balance (Age 85)	\$565,502	\$663,414
Total Blended Plan	\$2,496,691	\$3,933,851
Government-Sponsored Lifetime Earnings Gain (Loss)	\$440,452	\$542,368

Mr. JONES. Can you explain what the TRICARE Prime premium will be for working age retirees once fully implemented as compared to today's TRICARE Prime enrollment fee?

Mr. MALDON. There would not be a single TRICARE Choice premium cost for non-Medicare-eligible retirees under the Commission's recommendation. Retirees would be able to choose diverse plans with different prices, for example less expensive plans with more limited networks and more expensive plans with larger networks and more services. The Commission expects even the less expensive plans would have better networks and access than the current TRICARE program provides. In addition, the plans would offer a range of options that meet different needs for dif-

ferent stages and situations in life—allowing beneficiaries to select the plan best suited to their specific needs.

In the first year of TRICARE Choice, when the premium cost share is set at 5 percent, the range of premiums available to working age retirees would be similar to the premium for TRICARE Prime today, and total costs of health care to retirees, including premiums, copayments, and coinsurance, would be similar to what they are today. Fifteen years after implementation, when the premium cost share for working age retirees reaches its maximum of 20 percent, the premiums would be higher than TRICARE Prime is today, and the total costs of health care to retirees would be higher. As recognition of the retiree's military service, however, all of the plans in TRICARE Choice would be offered at a lower premium cost share than the average Federal civilian employee and lower than the cost share when TRICARE was established.

The Commission's best estimate of the average cost to a non-Medicare-eligible retiree under TRICARE today is about \$2,000. This amount includes the premium for TRICARE Prime, the average cost of extra programs like TRICARE Young Adult and TRICARE Retiree Dental Program, and out-of-pocket costs for copayments and deductibles. Under TRICARE Choice, when the premium cost share has risen to 20 percent, the total average costs would be \$3,600 per year.

Mr. JONES. Has the Commission done a side-by-side comparison of a variety of plans available on the FEHBP and that of the existing TRICARE programs and estimated premiums and copays for working-age retirees?

Mr. MALDON. The Commission recommendation does not place beneficiaries in the Federal Employees Health Benefits Program (FEHBP). The Commission explored this option and did not recommend it because it was not the best way to meet the needs of military beneficiaries and provide them the most cost-effective health benefit. Military beneficiaries would need to have access to military hospitals, and FEHBP plans do not provide this. The costs of plans would be different, because military beneficiaries are substantially younger than federal civilians and the plans would not cover the Service member, so the plans would have to provide coverage for fewer adults than FEHBP family plans. Also, the Commission recommended DOD work with the Office of Personnel Management and be more involved in designing and managing the new program than other Federal departments and agencies are in FEHBP.

The Commission analyzed projected plan premiums in TRICARE Choice and how they would compare to FEHBP plan premiums today. The differences in demographics (e.g. age) of military beneficiaries compared to federal civilians would likely result in an approximately 15 percent reduction in premiums for TRICARE Choice from what is seen in FEHBP today. Retaining the TRICARE pharmacy benefit in its current form would likely drive another approximately 15 percent reduction in premiums. Overall, it is realistic to expect plan premiums in TRICARE Choice to be on average 25–30 percent lower than FEHBP premiums.

Mr. JONES. In relationship to the TRICARE Program, your Final Report stated that "according to beneficiaries, timely and convenient access to care is a critical element of high quality properly functioning health care benefit, yet many TRICARE users expressed frustration with this element." Concurrently, TRICARE beneficiary access to prescription drugs through local pharmacies has been steadily decreasing over the last few years, and starting in October of this year TRICARE beneficiaries will only be able to get certain medications through the mail or from a military treatment facility. Moreover, many beneficiaries prefer to use their local pharmacy and need the face-to-face encounter with a pharmacist, or may not live close to a military treatment facility. With all of this in mind, do you believe the Department should instead be looking at ways to maintain beneficiary access to their local pharmacy, so that beneficiaries can access the health care system that best meets their needs?

Mr. MALDON. The Commission recommended DOD's pharmacy benefit remain in place but proposed some important adjustments. DOD would manage the pharmacy program and continue to use the DOD formulary and Federal Supply Schedule pricing. In keeping with the Commission's objectives to increase choice, access, and flexibility in health care, beneficiaries using TRICARE Choice, as well as Medicare-eligible retirees using TRICARE for Life, would obtain medications from retail, mail-order, and MTF settings. DOD would retain the authority to contract with a third-party administrator to perform functions such as managing the retail pharmacy network, distributing mail-order medications, and processing claims. The Commission recommends that such contracts require a pharmacy benefits manager to integrate pharmaceutical treatment with health care and to implement robust medication therapy management (MTM), including the integration of MTM activities at retail pharmacies.

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Mr. JONES. Your retirement proposal would provide a 401(k)-like, TSP benefit similar to Federal employees. Doesn't a 401(k) benefit act to an create incentive to leave, rather than stay in service?

Mr. MALDON. The Commission's recommendations are expected to maintain retention across the force profile, including for senior staff and noncommissioned officers and field grade officers. These findings are based in part on RANDS Corporation's Dynamic Retention Model analysis, which indicates reducing the pension multiplier from 2.5 percent to 2.0 percent, while adding TSP, with matching funds, and continuation pay, would not create an incentive to leave (see page 29 of the Commission's Final Report). The recommendations also work collectively to provide midcareer retention incentives that would help meet retention goals as follows:

- Providing Post-9/11 GI Bill transferability at 10 years of service (YOS), with 2 additional years of service, would enable the Services to increase retention to the critical 12-year point in a military career.
- Awarding continuation pay at 12 years of service (YOS), with an additional commitment of 4 YOS, would bring Service members to the 16-year point, at which the draw of the defined benefit (DB) encourages retention.
- Maintaining the majority of the DB retirement plan, would encourage Service members to stay 20 years or more.
- Flexibility in special and incentive pays, including continuation pay, would provide additional opportunities for retention incentives in cases where those listed above are not sufficient to retain key personnel.

Mr. JONES. Can you explain the personal discount rate for the retirement pension?

Mr. MALDON. The time value of money recognizes that money in hand today is more valuable than money in the future because money can be invested and earn positive returns. In other words, a dollar received in the future is worth less than a dollar received today. Personal discount rates expand this general concept to include people's risk tolerances and patience for spending. People who are risk averse or impatient for spending have higher personal discount rates, implying they strongly prefer money today relative to money in the future. The present value example in the Commission's final report reduces the value of future defined benefit payments by the personal discount rates calculated from RAND's dynamic retention model.

